CONFIDENTIAL

40375

THE INTERNATIONAL DEVELOPMENT ASSOCIATION AND
THE INTERNATIONAL MONETARY FUND

TANZANIA

Decision Point Document Under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative

Prepared by the Staffs of the International Development Association
and the International Monetary Fund [1]

March 20, 2000

Contents Page

[1] Approved by Anupam Basu and Anthony Boote (IMF) and Masood Ahmed and James Adams (IDA).

Boxes

Figures

Tables

Appendix

CURRENCY EQUIVALENTS

Currency unit	=	Tanzania shilling (T Sh)
US$1	=	T Sh 800.8 (February 29, 2000)

WEIGHTS AND MEASURES

Metric system

ABBREVIATIONS AND ACRONYMS

AfDB/F	African Development Bank/Fund
AIDS	Acquired Immunodeficiency Syndrome
BADEA	Arab Bank for Economic Development in Africa
BoT	Bank of Tanzania
BEMP	Basic Education Master Plan
CAS	Country Assistance Strategy
CIRR	Commercial interest reference rate
COD	Cutoff date
COMESA	Common Market for Eastern and Southern Africa
DAWASA	Dar es Salaam Water and Sewerage Authority
DSA	Debt sustainability analysis
EADB	East African Development Bank
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
GDP	Gross domestic product
GNP	Gross national product
HIPC	Heavily Indebted Poor Country
HIV	Human Immunodeficiency Virus
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
MDF	Multilateral Debt Fund
MTEF	Medium-term expenditure framework
NASACO	National Shipping Agencies Corporation
NBC	National Bank of Commerce
NPES	National Poverty Eradication Strategy
NPV	Net present value
OPEC	Organization of Petroleum Exporting Countries
PER	Public expenditure review
PRGF	Poverty reduction and growth facility
PRSP	Poverty reduction strategy paper
PSRC	Parastatal Sector Reform Commission
SAC	Structural adjustment credit
SEMP	Secondary Education Master Plan
SSA	Sub-Saharan Africa
STD	Sexually Transmitted Diseases
TCFB	Tanzania Central Freight Bureau
TANESCO	Tanzania Electric Supply Company Ltd.
THA	Tanzania Harbours Authority
TIC	Tanzania Investment Centre
TRA	Tanzania Revenue Authority
TRC	Tanzania Railways Corporation
TTCL	Tanzania Telecommunications Company Ltd.

I. INTRODUCTION

1. This paper presents a decision point assessment of Tanzania's eligibility for assistance under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative). In their discussions on the preliminary HIPC decision point document on September 9 and 15, 1999, the Boards of IDA and the IMF preliminarily declared Tanzania eligible for assistance under the HIPC Initiative in view of its high indebtedness, its status as a Poverty Reduction and Growth Facility (PRGF) and IDA-only country, and its track record of reforms.[2] They agreed to consider Tanzania's decision point under the Initiative upon approval of a new three-year PRGF arrangement with the IMF. In view of then ongoing discussions on enhancements to the HIPC Initiative, Directors postponed the discussion on the debt sustainability targets and the timing of the completion point until their consideration of the decision point document. The Government of Tanzania has described the main thrust of its medium-term growth and poverty reduction program in an Interim Poverty Reduction Strategy Paper (PRSP) and has requested that the Executive Board of the IMF support its program by a new three-year arrangement under the PRGF.[3]

2. The paper is organized as follows. Section II provides a summary of Tanzania's adjustment record and Section III describes the macroeconomic, structural, and poverty reduction policies to be pursued by Tanzania during the next few years. Section IV contains the staffs' recommendations concerning the completion point. Section V provides an update of the debt sustainability analysis (DSA)[4] presented in the preliminary decision point document, and reports on the government's debt reconciliation exercise and consultations with Tanzania's creditors in preparation for the decision point, the debt sustainability targets, and the level of assistance to be provided by the IMF and the IDA. Section VI lists the issues for discussion.

---

[2] SecM99-550 (8/27/99) and IDA/SecM99-563 (9/13/99), and EBS/99/172 (8/30/99).

[3] The Interim PRSP is contained in EBD/00/18 (3/14/2000), IDA/SecM2000-100 (3/14/2000), and the request for a PRGF arrangement in EBS/00/44 (3/10/2000).

[4] The DSA was prepared in cooperation with the Tanzanian authorities during a joint IDA-IMF mission in April 1999, and was updated during missions in October-November and December 1999, with further consultations in January and February 2000. The Fund staff team was led by Mr. Johnson, and comprised Mr. Snoek, Ms. Elborgh-Woytek (all AFR), Mr. Thugge, Mr. Choudhury (both PDR), and Mr. Välilä (FAD). Mr. Gunter (AFTD1) participated for the IDA. Bank and Fund staff residents in Tanzania have also contributed.

II. Summary of Tanzania's Adjustment Record

A. Macroeconomic and Structural Reform

3. Tanzania's 14-year track record of largely satisfactory adjustment, interrupted only by the deterioration of macroeconomic management during 1993–95, was described in detail in the preliminary HIPC Initiative document.[5] The socialist and "self-reliance" policies, implemented in Tanzania after independence in 1961, initially resulted in improved social indicators but proved to be unsustainable in the long run, as per capita economic growth rates turned negative in the late 1970s and early 1980s. Supported by the IMF, World Bank, and bilateral donors,[6] Tanzania embarked on its first comprehensive structural adjustment program in 1986, which aimed at dismantling the system of state controls and promoting the private sector. The economy responded to these reforms and the general improvement in macroeconomic management: annual growth recovered to an average 4 percent during 1986B93 and the level of international reserves increased to about three months of imports of goods and nonfactor services by June 1993; inflation, however, remained close to 30 percent per year during 1986–93, reflecting continued central bank financing of the economy (Figure 1, Tables 1 and 2).

4. Macroeconomic management deteriorated significantly during 1993–1995—resulting in large fiscal deficits, a sharp decline in international reserves, and continuing high inflation rates—but the reform and stabilization effort regained momentum following the election of a new government in late 1995.[7] Fiscal consolidation, supported by tight monetary policies, has resulted in major progress toward achieving Tanzania's stabilization objectives in the past four years. Inflation declined to 7 percent at the end of 1999, and gross official reserves are at the medium-term goal of four months of imports of goods and nonfactor services.

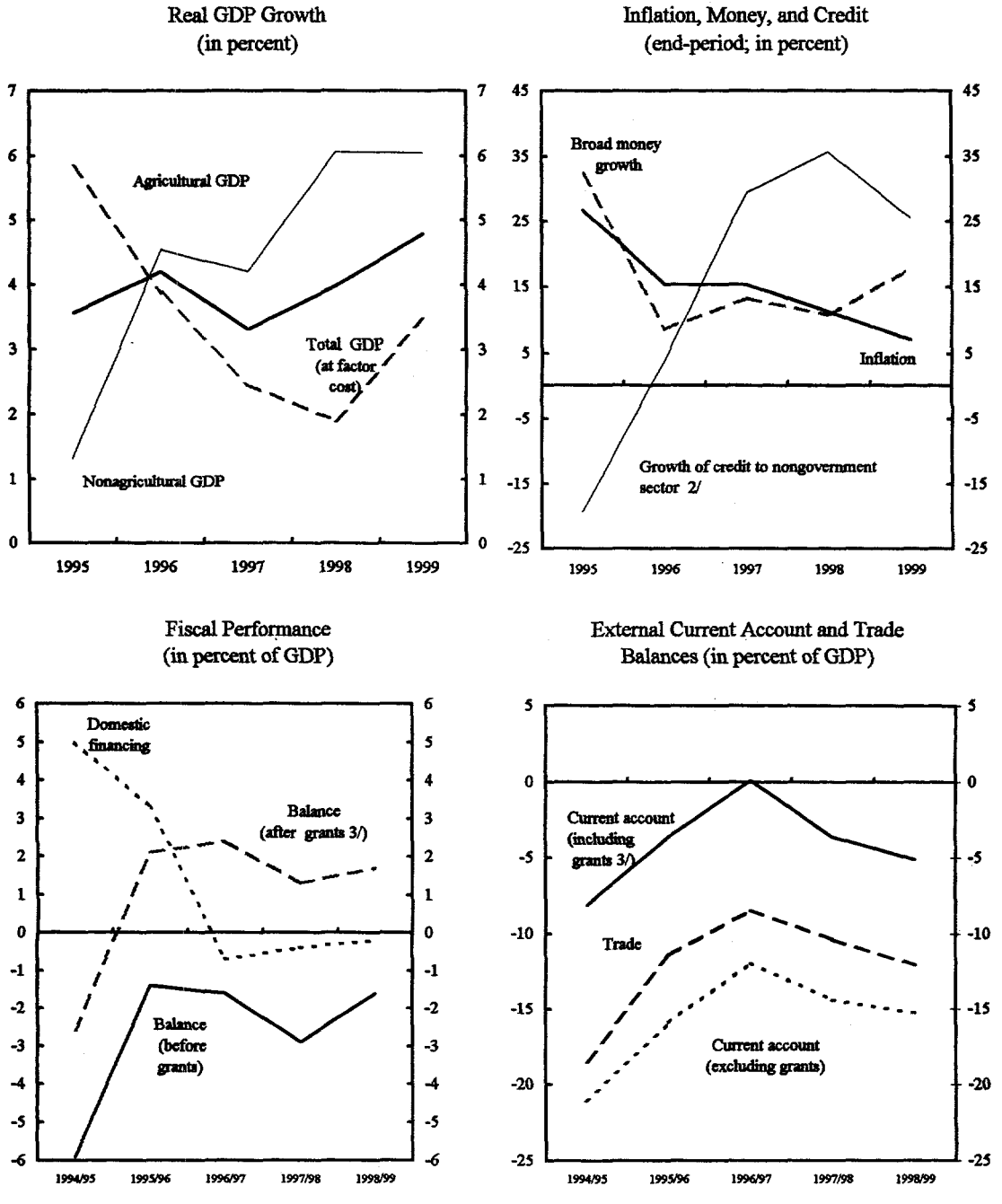
---

[5] Appendix II of the Interim PRSP also provides a detailed overview by sector of recent reform policies.

[6] IMF support consisted of a Stand-By Arrangement (1986–87) followed by arrangements under the Structural Adjustment Facility (1987–90) and the Enhanced Structural Adjustment Facility (1991–94). The first became inoperative in 1993; successive staff-monitored programs were only successful in improving macroeconomic performance in the second half of 1993/94 (July–June). World Bank support included a structural adjustment program (approved in 1986) and sectoral adjustment credits in support of reforms in industry, agriculture and the financial sector.

[7] IMF support was resumed with a staff-monitored program (January–June 1996), and a three-year PRGF (formerly ESAF) arrangement (1996–99). Support by the World Bank included a Structural Adjustment Credit (approved in May 1997) and sectoral adjustment credits in areas such as parastatal and civil service reform and the petroleum sector. Balance of payments support by bilateral donors also increased again.

Figure 1. Tanzania: Economic and Financial Indicators, 1995 - 99 1/



Sources: Tanzanian authorities; and staff estimates.

1/ Fiscal years run from July to June. The figures for 1999 are provisional.

2/ The 1996 figure for credit to the government sector has been adjusted to exclude the write-off of T Sh 112 billion in nonperforming loans by the National Bank of Commerce and Cooperative and Rural Development Bank.

3/ Grants include the grant element of concessional loans.

Table 1. Tanzania: Major Structural Changes in the Economy, 1985–99

	Mid-1980s	Mid-1990s	End-1999
Parastatal sector	Trade in more than 50 commodities restricted to parastatals	Trade completely liberalized; more than 400 parastatal entities identified for divestiture	More than half of parastatal entities divested; preparations begun for divestiture of utilities and other large monopolies
Financial sector	Government-owned banks control more than 90 percent of deposits	New privately owned banks licensed; main government banks being restructured	Main government-owned banks (and virtually all deposits) under private sector management
Price controls	Most prices government controlled	All prices market determined except petroleum products	All prices market determined
External trade	Imports subject to quantitative restrictions and exports to licensing	Imports and exports liberalized (apart from petroleum products); trade-weighted average import tariff reduced from 35 percent to 23 percent	Remaining de facto restrictions on petroleum products removed; trade-weighted average tariff rate further reduced to 14 percent
Access to foreign exchange	Holding of foreign exchange illegal; exchange rate set by government.	Exchange rate market determined; no restrictions on holding or acquiring foreign exchange for current account transactions	Exchange rate market determined; no restrictions on holding or acquiring foreign exchange for current account transactions
Monetary policy	Monetary policy nonexistent as government, banks and parastatals had liberal access to Bank of Tanzania (BoT) financing	BoT financing of banks and parastatals terminated as restructuring of state-owned banks begins	BoT operations strictly for monetary policy, which focuses on reducing inflation through market-oriented instruments
Fiscal policy	Large domestic deficits, mainly financed through BoT credit	Large domestic deficit financing continued through 1995	Cash control system in place; net repayment of domestic financing since 1996/97
Tax system	Tax base consists mainly of public enterprises; targets are met by ad hoc levies on these enterprises	Tax base eroded as tax net fails to include new private and informal sectors and discretionary exemptions continue; dependence on trade taxes increased	Tax administration improved and discretionary exemptions eliminated; cascading sales taxes replaced by value-added tax; import duties and personal income taxes reformed
Civil service reform	Civil service employment increasing; real wages eroded	Government employment reaches highest level of 354,000 in 1993; comprehensive civil service reform started	Government employment reduced to 264,000; implementation of wage reform began

Table 2. Tanzania: Macroeconomic Performance, 1963–99

	1963-75	1976-85	1986-93	1994	1995	1996	1997	1998	1999
Macroeconomic performance									
Growth (in percent) 1/	4.8	2.0	4.0	1.6	3.6	4.5	3.5	4.0	4.6
Inflation (annual average; in percent) 2/	12.1	22.2	28.9	33.0	28.4	21.0	16.1	12.8	7.9
Official reserves/imports 3/	...	0.9	1.1	1.7	1.5	2.2	2.9	3.4	4.1
Change in net domestic financing of the government (in percent of GDP) 4/	1.1	10.6	4.8	3.3	3.3	-0.7	-0.4	-0.2	-0.1

Sources: Tanzanian authorities.
1/ 1999: estimate. The average population growth rate was about 3 percent during the last 40 years.
2/ Data available from 1964 onward.
3/ Data available from 1976 onward. Gross official reserves in months of imports of goods and nonfactor services.
4/ Data available from 1967 onward. Up to 1993: change in banking system credit to the government; later data refer to fiscal years ending in June of the indicated calendar years.

5. There has also been substantial further progress toward a market-based economy and movement away from reliance on control mechanisms and government ownership of the means of production. The achievements in structural reform have included a streamlining of the civil service, comprehensive reform of the tax system, privatization of about half the parastatal enterprises (and initiation of the process for most of the remainder), and a far-reaching restructuring of the financial system. At end-1999, Tanzania's economy was largely market oriented. Many elements required for private sector-led growth are in place, and the main thrust of the reform effort is directed toward the structure and size of the government itself and the privatization of the utilities and other large parastatal monopolies. Moreover, specific policies are being developed to reduce poverty, reverse the deterioration of social indicators, and improve the delivery of social services.

6. Despite the considerable progress in macroeconomic stabilization and structural reform, average per capita growth rates have, at less than 1.5 percent per year during the last few years, remained below expectations. The effects of unfavorable weather conditions on the still largely agricultural economy have been an important factor in this slow growth. However, as in other "transitional" economies, it takes considerable time to reach the critical mass of reforms necessary for higher growth, and many important reforms have only just been completed or are still in the process of being carried out (Box 1).

Box 1. Tanzania: Issues in Low-Growth Performance

The relatively low economic growth rates can be largely explained by the fact that many important reforms have only just been completed or are still in the process of being completed.

- A stable macroeconomic environment was achieved only recently after more than two decades of annual increases in consumer prices of 20–30 percent.
- The severe restraint on fiscal expenditures in the context of the stabilization effort has not only had demand-reducing effects, but also contributed to the deterioration in the transportation infrastructure, which has been exacerbated by bad weather.
- Major tax reforms—intended to remove distortions and promote efficiency in the economy—were implemented only in the last few years.
- Trade and tariff barriers have declined considerably in recent years, but continue to provide high rates of effective protection.
- The banking system has grown from a few specialized government-owned banks to a competitive system with 19 banks. Nevertheless, the commercial banking offshoot of the former government-owned National Bank of Commerce—which accounted for more than 80 percent of the banking system's assets in the mid-1990s—is only now resuming normal operations, and microfinance, particularly in the rural areas, is just beginning.
- Capital markets remain shallow, in part because of the continuing prohibition on foreign portfolio investment, and investment approval procedures are onerous; the distortions caused by unsustainable tax incentive regimes are now being corrected, however.
- In the agricultural sector, progress in replacing government-owned distribution, marketing, and extension services by private channels has been slow, in part because of intervention by local governments and residual marketing organizations.
- Financial management of the utilities and large government-owned monopolies was mostly brought under control some years ago. However, their restructuring and privatization has only just begun, and services have not yet improved. Examples of the costs of the slow progress are the inefficiency of the electricity sector (with low access for the population as whole and high tariffs for businesses), and the high costs imposed on the economy by the inefficient oil refinery before its recent closure. Moreover, about half the smaller government-owned entities remain to be privatized.
- The government investigated major governance issues that emerged in the previous administration, but a comprehensive effort to address such issues, particularly through strengthening the civil service and reforming the legal system has only just begun.
- The collapse of social service delivery, which started in the 1980s and resulted in a decline in human capital, has only recently begun to be addressed.

B. Social Policies and Poverty

7. Low per capita growth rates are the main reason for the continuing high poverty levels in Tanzania. Another important reason is the fact that public sector expenditures in the social sectors have only gradually recovered from the drastic decline associated with the fiscal crisis of the mid-1990s, and that structural reforms in service delivery have been slow, particularly in education. Reliable current data are scarce, but indications are that more than half the population is living below the Tanzanian poverty line equivalent to US$0.65 per day, and about 40 percent may be living in abject poverty, with income below the value of a basket of goods that satisfies minimum nutritional needs. Life expectancy declined during the 1990s (mainly because of AIDS), as did school enrollment rates (Table 3). The deteriorating infrastructure, the adverse weather conditions in recent years, and the slow adjustment to liberalization in the agricultural sector have especially affected rural areas, where the majority of the poor live.

Table 3. Tanzania: Social Development Indicators, 1990 and 1998

	1990		1998 1/	
	Tanzania	Average for sub-Saharan Africa	Tanzania	Average for sub-Saharan Africa
GNP per capita (in U.S. dollars) 2/	190	540	210	480
Life expectancy (years)	50	50	48	51
Infant mortality (per 1,000 births)	99	100	85	91
Population with access to safe water (in percent)	...	...	49	45
Child malnutrition (in percent of Children under age 5)	...	...	31	...
Illiteracy (in percent of population aged 15 and higher)	37	50	28	42
Gross primary enrollment (in percent of School-age population)	70	76	66	77
Male	70	83	67	84
Female	69	68	66	69
HIV prevalence				

Sources: Government of Tanzania, Medium-Term Expenditure Framework for the Health Sector 1999/2000–2001/02 (1997 data on life expectancy and infant mortality); World Bank, *World Development Report*, 1997; and World Bank, *World Development Indicators*, 1999.

1/ 1998 or latest available statistic.
2/ Atlas method.

8. In the past three years, the government has refocused its priorities on the social sectors, with special emphasis on primary services. Following consultations with a wide range of stakeholders, the government adopted the National Poverty Eradication Strategy (NPES) in 1997. Additionally, in June 1999, the government issued a report on "Poverty and Welfare Monitoring Indicators." These indicators will be the basis for monitoring and evaluating the impact of poverty eradication programs, and will also facilitate the development of the

required baseline data. In line with the objectives of the NPES, the government has identified a select number of priority areas for public expenditure in the context of the annual medium-term expenditure framework (MTEF);[8] since 1998/99, the implementation of the MTEF is monitored under the participatory public expenditure review (PER) process.

9. The use of donor program assistance (import support) has also been focused more directly on poverty reduction. With effect from July 1998, the government established a Multilateral Debt Fund (MDF).[9] The fund has assisted in servicing debt to the World Bank, the IMF, and the African Development Bank, and the budgetary savings therefrom have been used to protect the budgets in the priority sectors, allowing a sizable increase in such expenditures in 1998/99. To ensure the protection of agreed priority allocations, their level is monitored in quarterly review meetings between the government and donors. For the future, continuation of bilateral assistance at its present levels, including the MDF, will be essential to ensuring the additionality of HIPC Initiative assistance.

10. In 1999, the government began developing the Tanzania Assistance Strategy (TAS) which will provide the national strategy framework for guiding external aid programs in Tanzania. The main objectives of the TAS are to strengthen Tanzanian ownership of development and poverty alleviation programs, improve the partnership between government and key stakeholders engaged in the development process, and enhance aid effectiveness.

C. Recent Performance Under Programs Supported by the IMF and World Bank

11. Recent performance under the arrangement supported by the IMF's PRGF (formerly ESAF) has continued to be broadly satisfactory. Inflation, which had come down from 11 percent at the beginning of 1999 to 7.7 percent by end-June, declined gradually further to 7 percent by end-December. An upsurge in foreign exchange receipts in the second half of the year allowed the Bank of Tanzania (BoT) to increase official international reserves to the equivalent of 4.1 months of imports of goods and nonfactor services, well above the target for end-December. The fiscal situation deteriorated around mid-1999, and the targets for net domestic financing for end-June and end-September 1999 were exceeded by wide margins. However, data for December and January indicate that the authorities' decisive response to these problems is bringing the budget back in line with the macroeconomic targets for the year 2000.

12. Despite some delays in 1998/1999—mainly for technical reasons but also, in some areas, because of delays in policy decisions—the structural reform agenda was largely on track by the end of 1999. The signing of the sales agreement for the National Bank of

---

[8] The priority sectors are health, education and water, the judiciary, roads, agriculture, and land.

[9] Donor contributions in 1998/99 amounted to US$88 million; pledges for 1999/2000 add up to $81 million.

Commerce (1997) in December completed an important step in the restructuring of the financial sector. All subsidies to the petroleum refinery—which ceased operating in October 1999 owing to lack of funds—were stopped as of January 1, 2000, and the completion of a new jetty in December now allows the country to import all its needs for petroleum products. Interim regulations for the petroleum sector were issued in December. With regard to the utilities, following the issuance of the investment memorandum in November, the selection of a wining bidder for Tanzania Telecommunications Corporation Ltd. (TTCL) is expected by mid-2000. Financial bids for the Dar es Salaam Water and Sewerage Authority (DAWASA) were opened on January 31, 2000, and the memorandum of understanding with the winning bidder is expected to be signed by March 2000. Finally, in October 1999, with the aim of reducing the high cost of energy in Tanzania, the government approved a restructuring plan for the electricity industry that aims at separating the Tanzania Electricity Supply Company (TANESCO) into generating, transmitting and distributing segments, for privatization in the medium term.

13. Reflecting the progress with structural reforms, two floating tranches of the IDA's Structural Adjustment Credit (Social Sector Reform and Banking Sector Reform) were released in April 1999 and June 1999, respectively. The tranche related to the petroleum sector reform was released in December after Tanzania had completed the liberalization of imports and retail prices for petroleum products and had removed the cross-subsidy element in petroleum product pricing. All tranche releases thus far have been on a full compliance (to conditionalities) basis. The one remaining tranche—on parastatal reform—is envisaged to be released by the credit closing date of June 30, 2000, which has been extended from the original closing date of December 31, 1998.

III. Medium-Term Policy Reforms

A. Medium-Term Policies and the PRSP

14. As described in the Interim PRSP, with macroeconomic stability largely achieved, the government's main medium-term objective is to create the conditions favorable to higher growth, with a particular focus on poverty reduction. In addition to maintaining the gains in macroeconomic stability, higher growth is expected to result from addressing the remaining structural bottlenecks to growth. Specific measures to reduce poverty will be supported by increasing budgetary expenditures in the social and other priority sectors. As mentioned above, the authorities have requested that their medium-term program be supported by a new three-year arrangement under the PRGF, and a new structural adjustment credit (SAC II) is expected to be presented to the IDA Board by mid-2000.

15. As indicated in the interim PRSP, the authorities' medium-term objectives and policies will be firmed up in a full PRSP.[10] Building on the consultative arrangements that have been set up in recent years (NPES, PER, MDF, TAS), the government is planning a series of meetings and workshops, in the first half of 2000, with the aim of completing the PRSP by August 2000. The PRSP will include baseline data on poverty and a national poverty line, based on an initial analysis of poverty trends; set monitorable medium-term poverty reduction targets, including specific targets for the social and other priority sectors; and provide an MTEF, allocating budgetary resources to finance attainment of these objectives.

B. Macroeconomic Policies

16. The key macroeconomic objectives are to increase economic growth to at least 6 percent annually and to reduce inflation from its current 7 percent to rates comparable to those in Tanzania's trading partners, while maintaining gross international reserves at four months of imports of goods and nonfactor services (Table 4). With the progress in stabilization, it is expected that the government will no longer need to repay domestic financing, thereby freeing fiscal resources for priority poverty reduction expenditures. The macroeconomic framework allows for continued strong expansion of credit to the private sector, supporting private sector-led growth.

17. A responsible fiscal policy will remain a cornerstone of the authorities' macroeconomic policies. On the revenue side, the government's main objective is to increase the revenue effort. Despite the tax reforms in recent years, Tanzania's revenue-to-GDP ratio remains low; however, tax rates are already relatively high, and improvements in the ratio will need to come from a broader tax base as the private sector further develops and tax administration improves. With regard to the latter, the TRA is receiving technical assistance from the World Bank and bilateral donors. Together with the conversion into taxes of the fees used to subsidize the oil refinery, this is expected to raise the revenue-to-GDP ratio from 11.5 percent in 1998/99 to 12.2 percent of GDP in 2002/03 (Table 5).

18. Expenditure policies will be formulated in support of the poverty reduction and growth objectives, strictly limiting nonpriority sector expenditure and channeling remaining available resources, including HIPC Initiative debt relief, to the priority sectors. Assuming a continued high level of foreign assistance, the rise in the revenue-to-GDP ratio would allow a substantial increase in expenditures in the next few years. However, for the next two years, the elections planned for end-2000 and the census scheduled for 2001/02 will take up much of the increase. The projections in Table 5 of priority sector expenditure are thus smaller than the desirable levels indicated in the MTEF, as set out in Box 2. Interim HIPC Initiative debt relief, which would amount to about 0.6 percent of GDP annually, would allow attainment of

[10] The assessment by the staffs of IDA and the Fund of the interim PRSP and the process for completing the PRSP are contained in EBD/00/21 (3/14/2000) and IDA/SecM2000-100 (3/14/2000).

Table 4. Tanzania: Selected Economic and Financial Indicators, 1995-2002

	1995	1996	1997	1998	1999 Prov.	2000 Proj.	2001 Proj.	2002 Proj.
	(Change in percent, unless otherwise indicated)							
GDP and prices								
Nominal GDP (in billions of Tanzania shillings)	3,020.5	3,767.6	4,703.5	5,631.5	6,393.4	7,126.3	7,886.7	8,712.9
Real GDP	3.6	4.5	3.5	4.0	4.6	5.2	5.6	6.0
Real GDP per capita	0.7	1.6	0.7	1.2	1.8	2.3	2.7	3.1
Consumer price index								
Annual average	28.4	21.0	16.1	12.8	7.9	5.8	4.5	4.0
End of period	26.8	15.5	15.4	11.3	7.0	5.0	4.0	4.0
External sector								
Exports, f.o.b. (in millions of U.S. dollars)	644.4	744.7	719.2	576.5	541.0	552.1	651.6	813.9
Imports, c.i.f. (in millions of U.S. dollars)	-1,440.0	-1,379.0	-1,394.7	-1,518.5	-1,630.6	-1,748.0	-1,906.5	-2,063.0
Export volume	10.9	21.3	-5.5	-15.8	-7.7	5.1	15.0	22.4
Import volume	-11.8	-2.8	7.3	11.1	1.7	6.1	8.1	7.2
Terms of trade	8.8	-4.5	7.0	3.3	7.7	-3.9	1.6	1.0
Nominal effective exchange rate (end of period)	-4.8	-3.7	5.0	-10.8	...	...	...	...
Real effective exchange rate (end of period)	11.2	10.0	18.7	-1.3	...	...	...	...
Public finance 1/								
Revenue (excluding grants)	35.4	27.6	8.2	11.4	12.8	11.8	14.3	12.7
Total expenditure and net lending 2/	22.2	7.1	19.8	17.5	20.0	12.4	9.5	11.5
Current expenditure	18.1	11.3	7.5	15.8	23.4	10.9	10.0	13.2
Development expenditure and net lending 2/	41.2	-9.1	79.0	22.4	7.6	10.9	8.0	6.3
	(In percent of beginning-period broad money, unless otherwise indicated)							
Money and credit								
Broad money	32.4	8.7	13.3	10.8	18.6	8.4	...	...
Net foreign assets	-10.8	16.6	13.2	7.3	14.6	5.1	...	...
Net domestic assets 3/	43.1	-5.3	2.7	5.4	3.9	3.4	...	...
Credit to government (net) 4/	17.3	2.2	-6.9	3.0	9.1	0.1	...	...
Credit to the nongovernment sector 3/	-5.7	-14.1	5.1	7.0	6.2	9.0	...	...
Velocity (fiscal-year GDP/end-period broad money)	4.0	4.6	5.1	5.5	5.3	5.4	...	...
Treasury bill interest rate (in percent; end of period) 5/	31.4	13.8	11.4	11.8	15.3	...	...	...
	(In percent of GDP, unless otherwise indicated)							
Public finance 1/								
Domestic revenue (excluding grants)	13.2	13.5	12.2	11.6	11.5	11.6	12.0	12.2
Total grants	2.2	3.6	3.1	4.0	4.0	3.9	3.2	2.9
Expenditure 2/	17.6	15.1	15.2	15.1	16.0	16.1	16.0	16.0
Overall balance (including grants /6; checks cleared)	-2.5	2.4	1.3	1.2	0.6	0.5	0.7	0.7
Domestic financing 7/	3.3	-0.7	-0.4	-0.2	-0.1	0.0	0.0	0.0
Savings and investment								
Gross domestic savings	0.8	5.7	5.5	3.0	2.2	3.1	4.6	5.8
Government	1.4	1.7	1.0	0.5	0.2	0.4	0.8	1.1
Nongovernment	-0.5	4.0	4.4	2.5	2.0	2.7	3.8	4.7
Investment	19.8	17.0	15.2	15.0	15.5	16.4	17.3	17.8
Government	3.4	3.1	3.3	3.0	3.5	4.0	4.5	4.5
Nongovernment	16.4	13.9	11.9	12.1	12.0	12.4	12.8	13.4
Resource balance	-19.0	-11.3	-9.7	-12.2	-12.6	-13.7	-12.8	-11.5
External sector, public debt, and debt service 8/								
Current account balance (excluding grants)	-21.1	-15.9	-12.0	-14.8	-15.1	-15.9	-15.4	-14.3
Current account balance (including grants /6)	-8.1	-3.6	0.1	-4.4	-4.0	-4.2	-4.7	-4.2
External debt service due, including IMF (in percent of exports of goods and nonfactor services)	43.5	44.6	36.9	39.4	28.9	27.7	22.8	17.9
	(In millions of U.S. dollars, unless otherwise indicated)							
Current account balance (excluding grants; deficit -)	-1,047.0	-941.9	-841.6	-1,241.3	-1,295.0	-1,399.8	-1,462.6	-1,464.7
Overall balance of payments (deficit -)	-222.8	-169.3	19.3	-82.0	29.8	-110.4	-164.0	-89.0
Gross official reserves	255.1	240.1	460.5	553.7	775.6	853.7	906.4	1,007.6
In months of imports of goods and nonfactor services	1.6	1.5	2.8	3.1	4.1	4.2	4.2	4.3

Sources: Tanzanian authorities; and staffs estimates and projections.

1/ Fiscal years (July-June), beginning in the year indicated in the column header.
2/ Data for development expenditure in 1998/99 are preliminary and likely to increase considerably.
3/ The 1995 decline reflects loan write-offs of T Sh 112 billion by the National Bank of Commerce and the Cooperative and Rural Development Bank.
4/ Including new debt issued for the recapitalization of banks.
5/ Weighted-average yield of 91-, 182-, and 364-day treasury bills.
6/ Including grant element of concessional loans.
7/ Excluding new debt issued to recapitalize government-owned banks.
8/ Data for 1995-1997 refer to fiscal years (July-June), beginning in the year indicated in the column header; data for 1998-2002 refer to calendar years.

Table 5. Tanzania: Central Government Operations, 1996/97-2002/03

	1996/97	1997/98	1998/99	1999/2000 Proj.	2000/01	2001/02	2002/03
					Projections		
			(In billions of Tanzania shillings)				
Revenues	572.1	619.1	689.5	777.6	869.3	993.8	1,120.0
Expenditures 1/	510.9	541.5	612.0	808.9	902.5	1,007.0	1,132.6
Wages	199.2	218.8	220.5	287.3	315.0	354.7	412.2
Interest on domestic debt	73.5	50.6	38.2	70.0	57.0	57.0	57.0
Goods, services and transfers 2/	235.4	248.1	340.9	428.2	489.9	545.2	610.5
Priority sectors	...	71.3	130.6	130.0	141.5	160.0	220.0
Other	...	176.8	210.3	298.2	348.4	385.2	390.5
Net lending	0.0	0.0	-6.4	0.0	0.0	0.0	0.0
Development expenditure	2.8	24.0	18.8	23.4	40.6	50.0	52.9
Adjustment to cash and other items (net)	-7.0	-1.2	-13.1	0.0	0.0	0.0	0.0
Net foreign financing 3/	4.6	-17.3	-19.4	55.7	53.2	43.2	65.8
Program grants	75.0	38.3	74.6	129.2	136.4	104.6	98.1
Program loans	21.4	65.8	35.0	54.3	74.4	83.7	85.3
Foreign debt service	-91.8	-121.4	-129.0	-127.8	-157.6	-145.1	-117.6
Interest	-37.6	-65.3	-57.7	-36.4	-49.9	-46.0	-53.4
Amortization	-54.2	-56.1	-71.3	-91.4	-107.7	-99.1	-64.2
Domestic financing	-31.5	-22.1	-10.0	-8.0	0.0	0.0	0.0
Privatization	12.7	6.5	11.5	0.0	0.0	0.0	0.0
Repayment of arrears	-39.9	-43.5	-46.5	-16.4	0.0	0.0	0.0
Planning reserve (-)	...	...	...	0.0	-20.0	-30.0	-52.9
			(In percent of GDP, unless otherwise indicated)				
Revenues	13.5	12.2	11.6	11.5	11.6	12.0	12.2
Net foreign financing	0.1	-0.3	-0.3	0.8	0.7	0.5	0.7
Expenditures	12.1	10.5	10.2	12.0	12.0	12.1	12.4
Of which:							
Wages	4.7	4.3	3.7	4.2	4.2	4.3	4.5
Goods, services, and transfers	...	4.8	5.7	6.3	6.5	6.5	6.7
Priority sectors (excluding wages)	...	1.4	2.2	1.9	1.9	1.9	2.4
Other goods, services, and transfers 2/	...	3.4	3.5	4.4	4.6	4.6	4.3
Planning reserve (-)	...	...	...	0.0	-0.3	-0.4	-0.6
Memorandum items:							
Possible HIPC Initiative debt relief (IMF and World Bank; in billions of Tanzania shillings)	...	...	...	11.1	45.6	50.4	57.1
Possible HIPC Initiative debt relief (IMF and World Bank; in percent of GDP)	...	...	...	0.2	0.6	0.6	0.6
Debt service paid / social sector expenditure 4/	0.7	0.7	0.6	0.5	0.4	0.3	0.2

Sources: Tanzanian authorities; and staffs estimates and projections.

1/ Excluding development expenditures financed by foreign project loans and grants.
2/ Including expenditure financed by program assistance.
3/ Excluding HIPC Initiative debt relief.
4/ Debt service includes possible HIPC Initiative debt relief from IMF and World Bank, social sector expenditure are medium-term requirements as identified under the PER process.

the short-term expenditure targets for the priority sectors and would also permit additional expenditures on poverty reduction. Debt relief following the completion point could amount to 1.0 percent of GDP annually, freeing additional resources for poverty reduction.[11]

19. Another major feature of the government's fiscal policies in the next few years is enhanced expenditure control. The new integrated financial information and management system was extended to all ministries from January 2000 and will produce monthly commitment and expenditure reports beginning July 1, 2000. The system will be supported by new public sector financial management and audit legislation and regulations, which are expected to become effective during 2000. These changes will permit the continuous tracking of government revenues, commitments, and expenditures by detailed budgetary item.

Box 2. Tanzania: Priority Sector Expenditure

Priority sector expenditure has increased considerably during the last few years. Spending on the social sectors (health, education, and water) increased from an actual 3.3 percent of GDP in 1997/98 to 3.6 percent of GDP allocated in the 1999/2000 budget; total priority sector expenditure increased from 4.1 percent of GDP in 1997/98 to 4.8 percent in the 1999/2000 budget. In 1998/99, the higher expenditure was made possible by the increase in program grants associated with the establishment of the MDF, and the close cooperation between the government and the donors ensured that the aid was directed toward higher priority sector expenditure. Pledges for assistance through the MDF are slightly lower for 1999/2000 than in the preceding year, but with a general improvement in the fiscal situation, allocations for the social sectors show a further 20 percent increase in nominal terms, and allocations for all priority sectors of 15 percent.

The increase in 1999/2000 in part reflects the first stage of the public service pay reform. Over the medium term, the government plans to bring public service salaries (particularly for professional staff) to levels competitive with those in the private sector, resources permitting. This will be particularly important for strengthening social sector services delivery.

The medium-term expenditure requirements for the priority sectors have been established based on sectoral studies prepared with World Bank assistance during the 1998/99 public expenditure review process. These requirements—which will be updated in the context of the PRSP—show a further increase of close to 40 percent in real terms in the following three years, which, if implemented, would bring such expenditure to 5.3 percent of GDP in 2002/03, as set out below. *HIPC* Initiative relief would permit the MTEF targets to be attained and would also provide additional resources for poverty reduction.

Priority Sector Expenditure
(In percent of GDP)

	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03
			Budget	Requirements		
Health	0.9	1.0	1.0	1.0	1.1	1.1
Education	2.3	2.3	2.5	2.6	2.6	2.5
Water	0.1	0.1	0.1	0.1	0.2	0.2
Judiciary	...	...	0.1	0.1	0.1	0.1
Agriculture and land	...	...	0.3	0.3	0.4	0.5
Roads	...	...	0.7	0.7	0.7	0.7
Total 1/	4.1	4.7	4.8	4.9	5.2	5.3

1/ For 1997/98 and 1998/99 exact data for expenditure on the judiciary, agriculture and land, and roads are not available.

[11] Compared with debt service payable upon full application of traditional debt relief mechanisms.

20. Monetary policy will remain geared toward achieving the objectives for inflation and external reserves. The BoT's main monetary policy instrument is treasury bill auctions, but the role of open market operations is expected to increase as secondary markets develop. Lending rates remain high in real terms, but indications are that the underlying trend is a decline in the spread between lending and deposit rates; the recent privatization of the NBC (1997) is expected to intensify competition in the financial sector. The second offshoot of the former NBC, the National Microfinance Bank, is expected to start microfinance operations later in 2000. Supported by legislation to regulate and promote microfinance, this bank will bring banking services to small enterprises and rural areas.

21. The external current account balance is expected to improve in the medium term as exports recover from the sharp decline in recent years and new export sectors, including gold, take off. Tanzania made considerable progress in opening its economy in recent years, further reducing customs tariffs. However the lower tariffs resulted in a considerable loss of tax revenue and exerted pressure on the competitiveness of domestic producers. In this context, the authorities do not envisage a further reduction in external tariffs in the next two budgets, although a number of anomalies in the tariff structure will be corrected.[12] Although Tanzania intends to withdraw from the Common Market for East and Southern Africa (COMESA), it remains committed to regional trade integration and recently signed the treaty for the renewed East African Community; however, progress in this area is expected to be gradual. Foreign portfolio investment on the Dar es Salaam Stock Exchange remains prohibited; the BoT intends to develop a medium-term policy on capital account liberalization by June 2001.

C. Structural Policies

Public sector reform and governance

22. Following the completion of the first phase of public service reform, the government has developed a new medium-term strategy that aims to establish quality public services at reasonable cost, implementation of which began with the wage increase of mid-2000. While recognizing that government resources will remain highly constrained in the medium term, the imperative of improving the quality and delivery of public services is at the center of the strategy. In addition to improvements in the structure and level of civil service wages, the strategy includes a further rationalization of the structure and functions of the government, including the establishment of additional quasi-autonomous executive agencies, to be

[12] The staffs would have preferred a more accelerated approach. The authorities agree that import tariff reduction will remain a key element in the reform agenda (see the PRSP matrix), but indicated that, after the rapid liberalization of recent years, they needed a pause for consolidation before embarking on the next round of import tariff reduction.

managed in accordance with commercial principles. An important aspect of the reforms will be the continuing transfer of authority to local governments and the building of their capacity to manage the reassigned staff and delegated tasks.

23. The government has begun to devolve tasks and resources to local governments, with the aim of increasing transparency and accountability and improving service delivery, especially in the social and other priority sectors. To ensure financial control and the quality of services, the devolution is being introduced gradually—the first group of 35 local authorities will be provided conditional block grants for the sectors of health, education, water, roads, and agriculture starting with the 2000/01 budget—and is being supervised by regional authorities and supported by training in financial management and supervised by regional authorities.

24. The new phase of the public sector reform program is closely correlated with the government's policies to improve governance. The government attaches great importance to fighting corruption, and a frank report on past practices was published early on in its term. In 1999, the government adopted the National Anti-Corruption Strategy and Action Plan for Tanzania. The plan aims at improving the competence and attitude of the public service and at establishing transparent systems and procedures, especially for procurement. In addition, it provides for a strengthening of the legislative framework and the judiciary.

25. Reform of the parastatal sector is a key element of the government's economic reform program. The government is instituting a framework for each sector that will allow for a coherent and organized approach to privatizing key infrastructural sectors and utilities. The mandate of the Parastatal Sector Reform Commission has been further clarified and extended to 2004, and the roles of the sponsoring ministries have been rationalized to ensure appropriate interministerial and interagency coordination. The government decision-making process has been further streamlined to ensure expeditious and transparent decisions on individual transactions.

26. The restructuring and privatization of the public utilities will continue to be accorded priority. Bids for TTCL have been invited, while the concessioning of the Tanzania Harbours Authority and DAWASA is at an advanced stage. A study to develop an optimal strategy for the divestiture of the remaining port terminals under THA is under way. The government has also undertaken to liberalize related shipping services currently under the National Shipping Agencies Corporation and the Tanzania Central Freight Bureau. Decisions on their restructuring are pending. The government intends to adopt policies to enhance private participation and move toward a full concessioning agreement for the Tanzania Railways Corporation, including the divestiture of its marine services division. Finally, the government intends to stimulate private commercial farming and divest the remaining agricultural parastatals.

Energy and mining sector policies

27. The government intends to improve the security, reliability, and efficiency of the power supply, while substantially expanding access of the Tanzanian population to electricity. Following the decision to unbundle and privatize TANESCO, proposals are being solicited from advisors to design the divestiture strategy and an accompanying regulatory framework; the government is also designing a new petroleum sector regulatory framework. The revised incentive and regulatory framework for the mining industry (in 1997) has led to large-scale private investment in the sector, while incentives to small-scale miners have been enhanced in parallel. Measures are also being undertaken to improve the geological data being made available to private investors. The divestiture of the State Mining Corporation is expected to be completed by June 2000.

Private sector environment

28. Building on the macroeconomic and institutional reforms in the public sector, the government intends to further improve the business environment for private investment, so as to stimulate a more rapid expansion in local and foreign private investment. The role of the Tanzania Investment Centre (TIC) is being reviewed, with the aim of focusing its efforts on facilitating investment, rather than on approving individual investments and providing tax benefits to them. To encourage and facilitate entry of new private operators, the current framework of business regulations is being assessed, based upon the diagnosis in an "investor road map" study. Policies and administrative systems governing access to land by private investors are being taken into account in the preparation of the new Land Act, in order to ensure transparent, timely, and secure access to property titles with mortgage and transfer rights.

Roads sector

29. The improvement of the existing major trunk roads and the strengthening of rural feeder roads is a key objective of the government's poverty reduction program for the rural areas. The government is focusing on addressing the weak management capacity and inadequate road maintenance through action on three related fronts. First, the government is providing clear commitments in the budget for recurrent road maintenance costs. Such earmarking approaches have been developed through targeting revenue from user charges for maintenance of the infrastructure. The protection of the Road Fund in 1999 was a step in this direction. A Roads Fund Board to enhance management of the funds earmarked for roads maintenance was recently legislated by the government. The government has committed itself to engaging private operators to carry out maintenance, upgrading and rehabilitation in the road sector. Second, the process of establishing a semiautonomous road agency is now under way. TANROADS has the principal responsibility for the management and operation (development, rehabilitation, and maintenance) of trunk and major district roads, which are presently under the management of the Ministry of Or. Finally, most critical in this regard is the need to strengthen the management capability of the government to prioritize investment and develop a cost-effective maintenance system. To this end, it is now engaged in a

dialogue with the donor community for developing a comprehensive long-term transport strategic framework; the preparation of a Ten-Year Road Sector Investment and Development Program has been launched. The MTEF priorities for the road sector will focus on rural roads and ensure adequate funding for recurrent expenditures related to road maintenance and intergovernmental transfers to districts.

Agricultural development

30. The government intends to formulate a comprehensive rural development strategy to provide the framework for effectively addressing poverty reduction. In the meantime, the government intends to take measures to sustain growth in the agriculture sector through, inter alia, improvements to the incentive framework, particularly through strengthening the regulatory framework to eliminate public sector interventions in the markets (via accelerated divestiture of state farms, removal of export bans and restriction on movement of agricultural outputs, and operation of the strategic grain reserve). Agricultural taxation will be reviewed to further consolidate and rationalize the system and implementation the new Land Acts will be strengthened. Concerted efforts will be made to improve the productivity of small farmers through increasing the returns to land and labor. Improvement in agricultural service provision in the context of decentralization, rapid transformation of the agricultural input delivery system and wider application of improved technologies and cultivation practices will be pursued. Improvements to rural infrastructure to reduce the high cost of marketing and transporting products and inputs will be pursued. The government is developing a framework for microfinance and rural financial institutions, as inadequate access to credit has been a serious constraint to farm and off-farm activities.

D. Poverty Reduction and Social Sector Policies

Poverty reduction targets

31. The principal targets of the NPES, which are in line with the International Development Goals, are to halve abject poverty (to about 20 percent of the population) by 2010, and completely eradicate it by 2025. In the context of the participatory processes of recent years, especially the PER, the government has developed a number of preliminary short-and medium-term policies and targets in relation to these objectives, which will be firmed up in the PRSP. Two national surveys—a household budget survey and a labor force survey—are being carried out this year and will help in establishing the baseline data for the indicators, while subsequent poverty-monitoring surveys (on the basis of the indicators developed by the government) will help trace both the progress in implementation and the impact of the poverty reduction programs. The new MTEF currently under preparation incorporates poverty reduction priorities in agriculture, education, health, rural roads and water supply. Tables providing broad poverty and social sector-related benchmarks (relating to the areas discussed here) were included in the Preliminary Document on HIPC.

Health sector policies

32. The government intends to continue focusing on three major challenges in the health sector, namely, (i) increasing the impact of health services by focusing on the most cost-effective interventions, improving the efficiency in the allocation and use of available resources, and improving management and delivery mechanisms; (ii) broadening the resource base for financing health services; and (iii) providing special attention to protecting the poor and vulnerable. In pursuing the above objectives, the government in the coming months expects to undertake the following actions, while paying special attention to protecting the poor and vulnerable through exemptions or other safety net mechanisms:

- adopt a new MTEF incorporating health sector priorities, including all donor resources for the health sector.
- establish intrasectoral budgetary allocations in the 2000/01 recurrent and development budget (based on the MTEF and sectoral priorities) so as to emphasize basic health services and nonsalary recurrent expenditures.
- introduce a revolving (drug) fund in hospitals in at least half the regions.
- review and improve the efficiency of revenue collections and exemption mechanisms for hospital services.
- extend cost sharing at the level of dispensaries and health centers to more districts in a phased manner, while paying specific attention to the exemption mechanisms for the poor, as well as co-management by communities.
- develop a regulatory and institutional framework for health insurance for public servants.

In addressing major causes of morbidity and mortality in Tanzania, the government plans to (i) implement the action plan for malaria control; (ii) increase immunization coverage; (iii) increase contraceptive prevalence; and (iv) undertake measures to raise public awareness of the HIV/AIDS epidemic as a national development issue and strengthen the political commitment to fighting it. To this end, the government envisages the establishment of a strong national body responsible for implementing the Third Medium-Term Plan for Prevention and Control of HIV/AIDS/STDs, which has benefited from the Joint United Nations Programme on HIV/AIDS.

Education sector policies

33. Educational attainments of children in Tanzania are poor and have been deteriorating during the 1990s. There are three major problems with education in Tanzania. Foremost is the rapid deterioration in the enrollment rates during primary school: entry rates are relatively high (nearly 90 percent) but survival rates at the end of the cycle are low (54 per cent). The problem is more acute for the children from poorer and female-headed households. The

second major concern is Tanzania's very low enrollment rate in secondary and tertiary education, compared with other countries with a similar level of income; a major reason is affordability: the cost of secondary and tertiary education is high relative to income levels in Tanzania. The very low student-teacher ratio, high overheads (e.g., because of boarding and related subsidies, which are disproportionately enjoyed by the better-off), and low utilization of facilities combine to raise unit costs. Third, the low overall budget provision for education in Tanzania (at about 2.5 percent of GNP), which is significantly lower than in other low-income countries, remains a major obstacle to reaching the poor.

34. In 1997, the Government prepared a "Basic Education Master Plan", which provides a national framework for improving school facilities, textbooks, school management and the quality of the teachers. The Plan's targets will be reviewed in light of the deteriorating trends. Government intends to gather information to address these issues by undertaking a school-mapping exercise, planned to be implemented by mid 2001. About 50 percent of district-based schools will be covered and will provide baseline data on the availability and condition of schools, the quality and distribution of teachers, the quality of school management, the enrollment and dropout rates, and key problems in the delivery of quality primary education. District level education plans will then be formulated and implemented with a view to addressing the issues identified in the context of the mapping survey. The government also intends to finalize and commence implementation of the Secondary Education Master Plan (SEMP), with the objective of raising entry rates to secondary education. This will include the adoption of a framework for cost sharing between the government, private sector and local communities. A plan to rationalize a number of underutilized and inefficient tertiary education institutions will also be implemented. Budgetary allocations to primary education will be sustained, as rationalization and the involvement of private/community providers in higher levels of education increase. The government also intends to adopt an MTEF incorporating poverty priorities in the education sector and establish intrasectoral budgetary allocations in the 2000/01 recurrent and development budget (based on the MTEF and sectoral priorities), so as to emphasize primary education services, rationalization of higher education, and nonsalary recurrent expenditures.

35. Further policy measures aim to address the main concerns through

- a change in the roles of the two ministries of education and the support agencies from that of direct provision of services to one focusing on formulating policy, advising local authorities, and monitoring their performance;

- an acceleration of the delegation of authority to the local authorities and school committees;

- the introduction of well-planned programs of capacity building at the central, district, and school levels;

- the introduction of carefully planned and costed programs to secure quality improvement, equitable access, and strengthened planning, management, and monitoring capabilities; and

- encouragement of private investment participation in education.

Water and sanitation sector policies

36. The government's primary objective is to ensure the provision of accessible and adequate water supply and sanitation (WSS) services for a significant majority of Tanzanians. In both urban and rural areas, strengthened support for decentralization, private sector participation, sound pricing, and development of local planning and operational capacities is key to achieving the government's objective. In urban areas, the program would continue and strengthen support for the following:

- decentralization of responsibility for provision of WSS service to local Governments and creation of financially autonomous water boards;

- consolidation of water boards to achieve economies of scale;

- subcontracting of operations to professional (preferably private) operators;

- promotion of pricing policy meeting economic, financial, and equity objectives;

- developing local project appraisal, financing, performance-monitoring, and regulatory capacities;

- developing local delivery (engineering, construction, and operations) capacities;

- subcontracting of DAWASA management to a private operator under a ten year lease contract.

37. With respect to rural water supply and sanitation, the government is working on promoting demand-driven sector development by transferring the management of the existing water system infrastructure and identification of new projects to local communities and introducing water funds to be managed by local authorities. In this respect, the government is also seeking to develop and strengthen local governments and local private sector capacities. The government is also providing support for the "Water for Life" campaign.

IV. THE FLOATING COMPLETION POINT

38. The staffs of the World Bank and the IMF propose that Tanzania's floating completion point under the HIPC Initiative be triggered by: (i) successful implementation of a set of reform measures, as described in Box 3; (ii) endorsement by the Boards of the PRSP and of the authorities' first annual report on implementation of the PRSP; and (iii) the maintenance of a stable macroeconomic environment, as evidenced by performance under a

program supported by an arrangement under the PRGF. These measures were identified in discussions with the Tanzanian authorities. In the staffs' view, they reflect key issues in the government's medium-term program as described in the interim PRSP and the policy matrix attached thereto, and provide a basis for assessing Tanzania's progress in pursuing structural reforms and in implementing growth-enhancing and poverty-reducing policies. The government intends to accelerate the implementation of its reform program, and aims to complete the list of structural and poverty reduction reforms by June 2001; it believes that the completion point should follow immediately thereafter.

Box 3. Tanzania: Policy Reforms for the Floating Completion Point

Macroeconomic

Maintain a **stable macroeconomic environment**, as evidenced by satisfactory performance under a program supported by an arrangement under the PRGF.

Structural

Governance. Adoption, publication, and dissemination of the national action plan for the control of corruption, including dissemination to all district authorities, implementation of workshops with district authorities and civil society, and adoption of sector-specific anticorruption plans for tax administration, national tender system, the judiciary, and works.

Government financial management. Submission to parliament of the Public Finance Management Bill and Public Audit Bill. Full implementation of the IFMS, including all budgetary votes and tax and nontax revenues, and recording of all expenditure commitments, payments, and arrears.

Tax reform. Substantial completion of the remaining tax reform agenda, through: application of VAT on petroleum products and consolidation of all other taxes on them; repeal of import-specific partial remissions on customs duties and abstention from imposing additional minimum dutiable values and basing existing ones on international prices (except for sugar); harmonization of investment incentives; reduction in scope of exemptions; reduction in the number of excise taxes from 52 to 6; abolition of the withholding tax on goods and services; starting operation of a unified tax appeals system; and the establishment of a more efficient duty drawback system based on technical assistance recommendations.

Improvement of the business environment. Submission to parliament of amendments to the TIC Act transforming it into an effective service center for investors; issuance of land regulations ensuring that land can be used as collateral for commercial transactions.

Improvement of utility performance. Signing of concession agreement assigning assets of DAWASA to private management companies; initiation of the process for unbundling TANESCO into autonomous commercial entities by appointing advisers; and adoption by the government of the framework for the establishment of regulatory authorities for the utilities.

Poverty Reduction

Preparation of the **PRSP** through a participatory process; first annual progress report on implementation of the PRSP.

Improvement of the **poverty database and monitoring capacity** by implementing a household budget survey and the establishment of poverty lines and indicators based thereon; approval of the institutional setup and a monitoring system for tracking changes in income poverty, social indicators, and community needs. Strengthened capacity in the Vice-President's Office and the National Bureau of Statistics to collect and analyze poverty data.

Adoption of a **MTEF and provision of allocations in the budget** for 2000/01 in line with poverty reduction objectives, including for a rationalization of higher education and the introduction of a revolving fund in all hospitals;

Education. Completion of mapping of schools covering 50 percent of all local authorities;

Health. Complete immunization of at least 75 percent of children under two years against measles and DPTs. Implementation of the national spearhead campaign against HIV/AIDS, including completion of visits to 75 percent of all districts.

39. The measures in the area of poverty reduction are related to the preparation of the PRSP and the first annual progress report on its implementation. In addition to the establishment of an adequate poverty database and completion of the PRSP itself, they include the allocation of adequate resources for its implementation and measures to allow monitoring progress in poverty reduction, as well as specific targets for school mapping and immunization. With regard to the structural measures, the actions in the area of government financial management concern different elements of the government's policy to strengthen expenditure management through the new IFMS. The tax reform measures would largely complete the tax reform agenda. The measures on governance and in the area of infrastructure are important for improving the investment climate and increasing economic growth.

40. The Fund staff will take the lead in monitoring and assessing macroeconomic policies and the measures with regard to government financial management and tax reform. The World Bank staff will take the lead in monitoring the implementation and fulfillment of the poverty measures and the remaining structural reforms. The Bank and Fund staffs will produce joint assessments of the PRSP and the authorities' first annual progress report on its implementation.

V. Debt Sustainability Analysis and Assistance Under the Enhanced HIPC Initiative

A. Debt Sustainability Analysis

41. The **debt sustainability analysis** (DSA) was prepared using loan-by-loan data provided by the authorities and creditors for debt outstanding at end-June 1999. The nominal debt data have been reconciled with most creditors' data and, separately, with data provided by the Paris Club Secretariat.[13] The net present value (NPV) of debt-to-exports ratios reported are calculated using the backward-looking three-year average of exports of goods and nonfactor services, while the debt-service ratio is measured in relation to current-year exports. The exchange and interest rates used for the calculations are provided in Table 6. As a result of the debt reconciliation exercise, and the change in the base period for the actual data used to calculate potential HIPC Initiative assistance, the NPV of debt and the assistance at the decision point has been revised downward (Box 4).

42. **At end-June 1999, Tanzania's external public debt amounted to US$6.4 billion** in nominal terms, including US$1.2 billion in arrears. As an important part of the debt is on concessional terms, the total debt stock in present value terms, at end-June 1999, amounted to about US$4.6 billion, or 397 percent of the three-year average of exports (Table 7). Of the public debt outstanding in present value terms, about 41 percent was owed to multilateral

[13] Multilateral debt has been reconciled with creditors, most of the debt owed to Paris Club creditors has been reconciled, but there has been little progress in reconciling debt owed to non-Paris Club bilateral and commercial creditors.

Table 6. Tanzania: Discount Rate and Exchange Rate Assumptions as of End-June 1999

	Discount Rates 1/ (In percent)	Exchange Rates 2/ (Per U.S. dollar)
Currency		
Austrian schilling	4.61	13.3
Belgian franc	4.61	39.1
Bulgarian lev	4.87	1.9
Canadian dollar	6.02	1.5
Chinese yuan	4.87	8.3
Danish kroner	4.81	7.2
Deutsche mark	4.61	1.9
European currency unit	4.61	1.0
Finnish marka	4.61	5.8
French franc	4.61	6.4
Indian rupee	4.87	43.4
Iraqi dinar	4.87	30.0
Irish pound	4.61	0.8
Italian lira	4.61	1,874.8
Japanese yen	2.32	121.1
Kuwaiti dinar	4.87	0.3
Luxembourg franc	4.61	39.1
Netherlands guilder	4.61	2.1
Norwegian kroner	6.02	7.8
Portuguese escudo	4.61	194.1
Russian ruble	6.00	0.6
Saudi Arabian riyal	4.87	3.7
Spanish peseta	4.61	161.1
Special drawing rights	4.87	0.7
Swedish kroner	4.77	8.5
Swiss franc	3.74	1.6
Tanzania shilling	4.87	737.0
U.A.E. dirham	4.87	3.7
U.K. pound	5.82	0.6
U.S. dollar	6.00	1.0
Zambian kwacha	4.87	2,439.5
Zimbabwe dollar	4.87	38.0

Sources: OECD; and IMF, *International Financial Statistics*.

1/ The discount rates used are the average commercial interest reference rates for the respective currencies over the six-month period ended June 1999.

2/ The exchange rates are those at the base date (end-June 1999).

Table 7. Tanzania: Nominal and Net Present Value of External Debt Outstanding as of End-June 1999

	Nominal Debt			NPV of Debt			NPV of Debt after Rescheduling 1/		
	US$ million	Percent of total	Percent of group	US$ million	Percent of total	Percent of group 2/	US$ million	Percent of total	Percent of group
Total	6,384.7	100.0	100.0	4,613.0	100.0	100.0	3,768.7	100.0	100.0
Multilateral institutions	3,423.9	53.6	100.0	1,897.7	41.1	100.0	1,897.5	50.3	100.0
AFDB/AFDF	465.4	7.3	13.6	232.3	5.0	12.2	232.3	6.2	12.2
African Development Bank	14.6	0.2	0.4	16.7	0.4	0.9	16.7	0.4	0.9
African Development Fund	450.8	7.1	13.2	215.6	4.7	11.4	215.6	5.7	11.4
IDA/IBRD	2,471.4	38.7	72.2	1,291.8	28.0	68.1	1,291.8	34.3	68.1
IBRD	18.0	0.3	0.5	18.5	0.4	1.0	18.5	0.5	1.0
IDA	2,453.3	38.4	71.7	1,273.3	27.6	67.1	1,273.3	33.8	67.1
IMF	279.1	4.4	8.2	222.9	4.8	11.7	222.9	5.9	11.7
IFAD	53.8	0.8	1.6	28.4	0.6	1.5	28.4	0.8	1.5
BADEA	31.3	0.5	0.9	27.3	0.6	1.4	27.1	0.7	1.4
EADB	2.8	0.0	0.1	2.9	0.1	0.2	2.9	0.1	0.2
European Union	92.3	1.4	2.7	70.5	1.5	3.7	70.5	1.9	3.7
Nordic Development Fund	7.2	0.1	0.2	3.4	0.1	0.2	3.4	0.1	0.2
OPEC	20.5	0.3	0.6	18.3	0.4	1.0	18.3	0.5	1.0
Paris Club	1,993.6	31.2	100.0	1,791.9	38.8	100.0	1,481.2	39.3	100.0
Post-COD	132.7	2.1	6.7	116.3	2.5	6.5	116.1	3.1	7.8
Pre-COD	1,860.9	29.1	93.3	1,675.6	36.3	93.5	1,365.1	36.2	92.2
Of which:									
Official Development Assistance	237.7	3.7	11.9	237.2	5.1	13.2	239.8	6.4	16.2
Non-ODA	1,623.1	25.4	81.4	1,438.4	31.2	80.3	1,125.2	29.9	76.0
Austria	44.2	0.7	2.2	30.3	0.7	1.7	21.3	0.6	1.4
Belgium	136.5	2.1	6.8	120.9	2.6	6.7	96.5	2.6	6.5
Brazil	231.7	3.6	11.6	131.3	2.8	7.3	131.3	3.5	8.9
Canada	46.5	0.7	2.3	48.7	1.1	2.7	29.6	0.8	2.0
France	139.7	2.2	7.0	152.7	3.3	8.5	102.9	2.7	6.9
Germany	62.7	1.0	3.1	77.7	1.7	4.3	61.0	1.6	4.1
Italy	203.1	3.2	10.2	141.3	3.1	7.9	122.2	3.2	8.2
Japan	660.8	10.3	33.1	661.2	14.3	36.9	596.8	15.8	40.3
Norway	10.5	0.2	0.5	10.7	0.2	0.6	6.5	0.2	0.4
Netherlands	77.2	1.2	3.9	94.3	2.0	5.3	64.3	1.7	4.3
Russia	159.2	2.5	8.0	110.6	2.4	6.2	110.6	2.9	7.5
Spain	10.4	0.2	0.5	8.8	0.2	0.5	8.8	0.2	0.6
United Kingdom	188.1	2.9	9.4	180.3	3.9	10.1	118.8	3.2	8.0
United States	23.0	0.4	1.2	22.9	0.5	1.3	10.7	0.3	0.7
Non-Paris Club official bilateral	864.0	13.5	100.0	820.3	17.8	100.0	338.5	9.0	100.0
Post COD	112.2	1.8	13.0	98.5	2.1	12.0	97.6	2.6	28.8
Pre-COD	751.8	11.8	87.0	721.8	15.6	88.0	240.9	6.4	71.2
Of which:									
Official Development Assistance	102.1	1.6	11.8	73.1	1.6	8.9	26.0	0.7	7.7
Non-ODA	649.7	10.2	75.2	648.7	14.1	79.1	214.9	5.7	63.5
Algeria	100.1	1.6	11.6	100.1	2.2	12.2	33.1	0.9	9.8
Angola	5.4	0.1	0.6	5.4	0.1	0.7	1.8	0.0	0.5
Bulgaria	30.8	0.5	3.6	30.8	0.7	3.8	11.7	0.3	3.5
China	131.1	2.1	15.2	95.1	2.1	11.6	49.9	1.3	14.7
Croatia	2.7	0.0	0.3	2.7	0.1	0.3	2.6	0.1	0.8
Czech Republic	11.6	0.2	1.3	11.6	0.3	1.4	11.0	0.3	3.2
Egypt	2.0	0.0	0.2	2.0	0.0	0.2	0.7	0.0	0.2
Hungary	18.0	0.3	2.1	18.0	0.4	2.2	5.9	0.2	1.8
India	39.8	0.6	4.6	39.8	0.9	4.8	13.2	0.3	3.9
Iran, I.R. of	144.0	2.3	16.7	144.0	3.1	17.6	47.6	1.3	14.1
Iraq	88.0	1.4	10.2	88.0	1.9	10.7	29.1	0.8	8.6
Korea	0.6	0.0	0.1	0.5	0.0	0.1	0.5	0.0	0.2
Kuwait	49.5	0.8	5.7	44.1	1.0	5.4	32.3	0.9	9.5
Libya	112.2	1.8	13.0	112.2	2.4	13.7	37.1	1.0	11.0
Poland	10.5	0.2	1.2	10.5	0.2	1.3	3.5	0.1	1.0
Romania	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Saudi Arabia	13.3	0.2	1.5	11.1	0.2	1.4	10.3	0.3	3.1
United Arab Emirates	11.3	0.2	1.3	11.3	0.2	1.4	3.7	0.1	1.1
Yugoslavia	91.5	1.4	10.6	91.5	2.0	11.2	43.9	1.2	13.0
Zambia	0.9	0.0	0.1	0.9	0.0	0.1	0.3	0.0	0.1
Zimbabwe	0.5	0.0	0.1	0.5	0.0	0.1	0.2	0.0	0.1
Commercial 3/	103.3	1.6	12.0	103.1	2.2	12.6	51.6	1.4	15.2
Memorandum item:									
NPV of debt-to-exports 4/	549.6			397.1			324.4		

Sources: Tanzanian authorities; and staff estimates.

1/ After hypothetical full use of traditional debt-relief mechanisms.
2/ For multilateral institutions, these shares in the NPV of total multilateral debt are applied to the total multilateral NPV reduction required at the decision point to determine each institution's amount of assistance under the Initiative.
3/ Consists of uninsured commercial credits to the government or guaranteed by the government. Loans classified in this category are not subject to the debt buyback.
4/ NPV of debt in percent of three-year average of exports of goods and non-factor services.

creditors, and 38.8 percent to Paris Club creditors (including 2.4 percent to Russia). Non-Paris Club bilateral creditors accounted for 17.8 percent of the debt, and commercial creditors for the remaining 2.2 percent (Figure 2).

Box 4: Main Factors Explaining Differences in Debt Data Presented in the Preliminary HIPC Document

The preliminary HIPC document noted that the debt estimates and net present value calculations were themselves preliminary, pending the full reconciliation of outstanding debt. The differences between the preliminary HIPC document and the current decision point document are due primarily to an improvement in data following the reconciliation exercise, although the changes in the timing of reference point for the calculations from end-December 1999 to end-June 1999 also has had some impact.

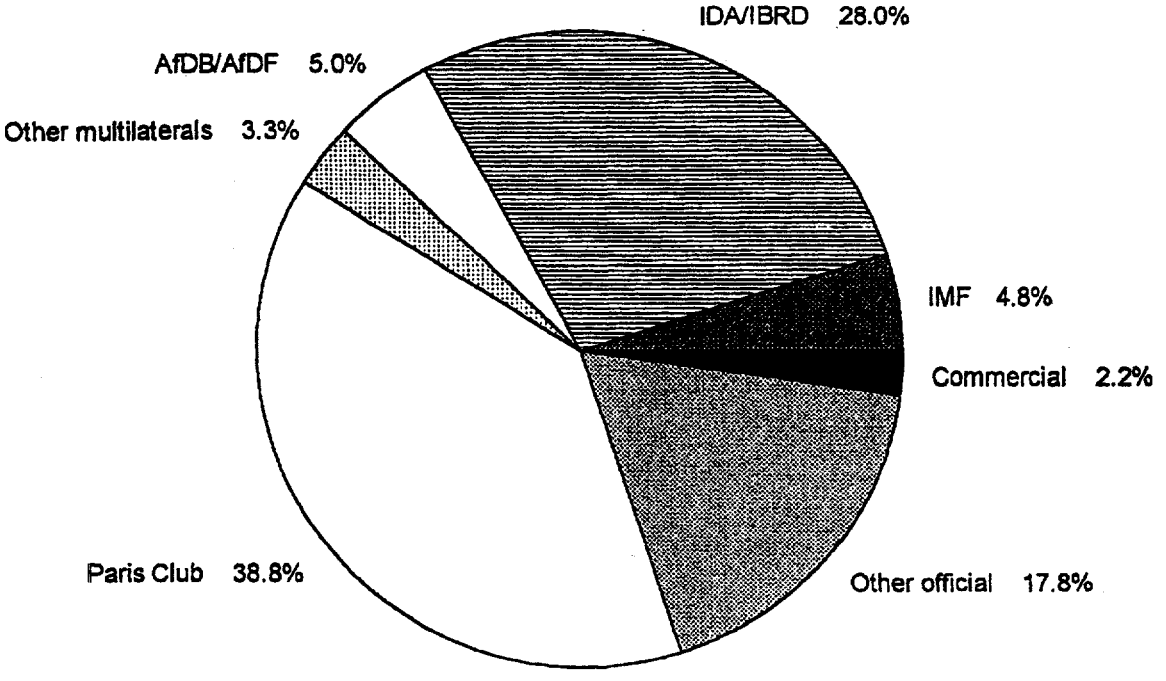
The current estimate of the NPV of debt after use of traditional relief mechanisms (US$3.8 billion) is about US$390 million lower than in the preliminary HIPC document. This reflects the fact that, (i) in the preliminary HIPC document, multilateral debt included a projection of new disbursements (about US$580 million) through December 1999, whereas the current figures do not include projections and reflect actuals through June 1999; (ii) the reconciliation of debts for the bilateral agreements under the Paris Club rescheduling has been largely completed; and (iii) some loans previously classified as commercial (about US$105 million), in fact had bilateral guarantees, and thus are now included in bilateral debt. These reductions have been slightly offset by the fact that discount rates used in the current decision point document are lower than those used in the preliminary HIPC document.

43. Of the debt owed to **multilateral creditors**, on an NPV basis, 68.1 percent was owed to IDA/IBRD, 12.2 percent to the African Development Fund/Bank, and 11.7 percent to the IMF. Other multilateral creditors accounted for 8.0 percent; these include the Arab Bank for Economic Development in Africa (BADEA), the East African Development Bank (EADB), the European Union (EU), the International Fund for Agricultural Development (IFAD), the Nordic Development Fund (NDF), and the Organization of Petroleum Exporting Countries (OPEC) Fund. The debt owed to multilaterals includes arrears of US$10.3 million to BADEA. Tanzania has agreed to eliminate these arrears by June 2000, and has already paid US$6.2 million through end-February 2000. With respect to bilateral debt, 68.6 percent represents Paris Club debt, and the rest is owed to other bilateral creditors. **Paris Club** debt, of which 93.5 percent is pre-cutoff-date, is owed in large part to Japan (36.9 percent), United Kingdom (10.1 percent), and France (8.5 percent). Large holders of bilateral **non-Paris Club** official debt include Iran (17.6 percent), Libya (13.7 percent), Algeria (12.2 percent), and China (11.6 percent).

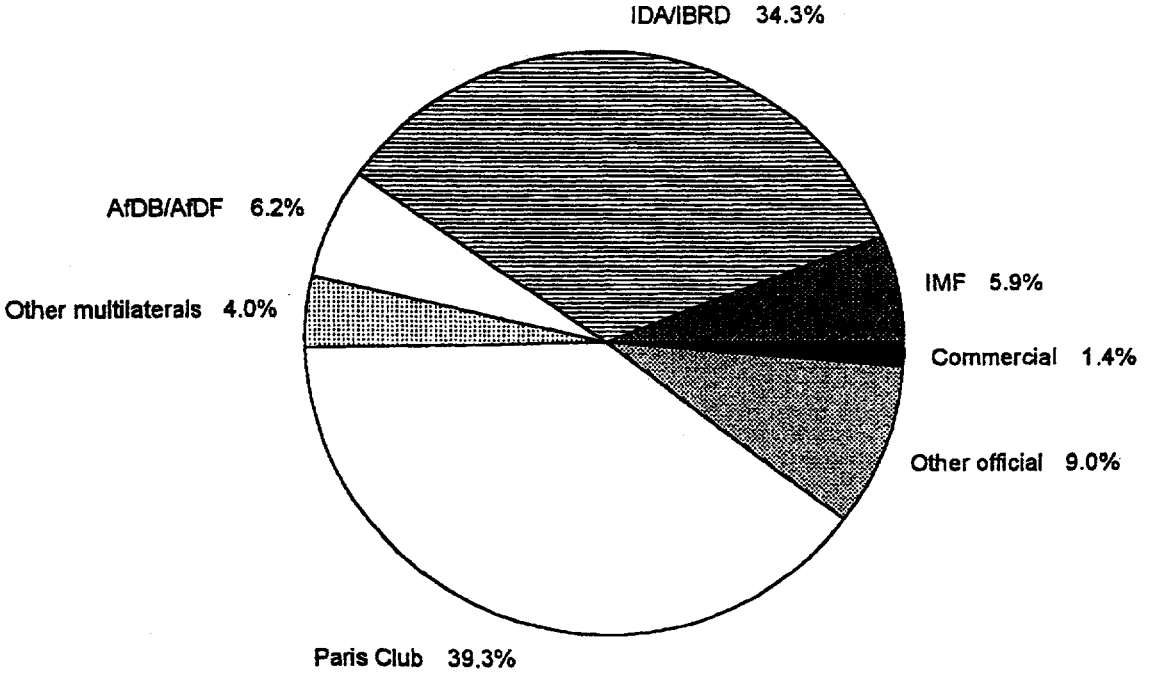
44. Tanzania has benefited from **five Paris Club rescheduling agreements.** The fifth Paris Club agreement (PC-V)—a flow rescheduling on Naples terms—was signed in January 1997 and covered a consolidation period from December 1996 to November 1999, with an NPV reduction of 67 percent on eligible debt. Tanzania has signed all PC-V bilateral agreements, with the exception of Japan. The agreement with Japan is expected to be signed shortly as all the details have been agreed. The agreement with Russia, which was signed in

Figure 2. Tanzania:
External Debt Position as of June 1999

NPV Before Rescheduling



NPV After Full Use of Traditional Debt-Relief Mechanisms



Sources: Tanzanian authorities; and staff estimates.

November 1999, incorporated the framework of Russia's agreement with the Paris Club.[14] The authorities have made best efforts to reach agreements to reschedule non-Paris Club debt on terms at least as favorable as those granted to Paris Club creditors, but have not been able to conclude any such agreements.

45. **Debt targets.** As endorsed by the Interim and Development Committees in September 1999, the debt targets under the enhanced framework of the HIPC Initiative are set at 150 percent for the ratio of the NPV of debt to exports. Tanzania's NPV ratio would remain well above the 150 percent threshold, even after the full use of traditional debt-relief mechanism (Table 10).

Baseline scenario

46. The baseline balance of payments scenario assumes real GDP growth of about 5½ percent in 2000–02 and 6 percent thereafter (Tables 8 and 9). It assumes favorable climatic conditions, especially insofar as they affect the output of export crops (notably coffee, tobacco, and cashew nuts), which together currently represent about 40 percent of total export receipts. Although gold exports currently represent a relatively small part of Tanzania's exports, the scenario assumes that gold exports will increase substantially in the medium term, reflecting production from four new mines. The key assumptions underlying this scenario are quantified in Table 8 and summarized in Box 5.

47. Based on the assumptions in Box 5, the current account deficit, excluding official transfers, is projected to decrease gradually from an annual average of 13.6 percent in 1999–2008 to an average of 9.4 percent in 2009–18. It is assumed that Tanzania will continue to benefit from a substantial inflow of external assistance in the form of grants and highly concessional loans (on IDA terms). With growing exports, it is assumed that the economy will become gradually less dependent on official transfers. Gross official reserves would remain at the equivalent of about four months of goods and nonfactor services throughout the projection period.

[14] This implies an 80 percent up-front reduction on all debt outstanding, followed by a 67 percent NPV reduction on the remaining pre-cutoff-date debt.

Table 8. Tanzania: Main Macroeconomic Assumptions, 1999-2018

(In percent of GDP, unless otherwise indicated)

	1999 Est.	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	1999-2008	2009-2018
		Projected											Average	
Economic growth														
Real GDP (percentage change)	4.6	5.2	5.6	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	5.7	6.0
Real GDP per capita (percentage change)	1.9	2.4	2.8	3.3	3.3	3.3	3.2	3.2	3.2	3.2	3.2	3.2	3.0	3.2
Balance of payments														
Exports of goods and services 1/	13.6	13.8	14.5	15.6	16.6	17.1	16.7	16.8	17.5	17.8	18.0	18.1	16.0	18.3
Imports of goods and services 1/	26.3	27.5	27.4	27.2	28.7	28.8	27.6	27.1	27.5	27.5	27.4	27.2	27.6	26.6
Current account, including grants	-6.5	-6.9	-7.2	-6.6	-7.0	-7.0	-6.6	-6.4	-6.4	-6.3	-6.1	-5.9	-6.7	-5.5
Current account, excluding grants	-15.1	-16.0	-15.4	-14.3	-14.3	-13.7	-12.6	-12.0	-11.7	-11.3	-10.8	-10.4	-13.6	-9.4
Gross official reserves (in months of imports) 2/	4.1	4.2	4.2	4.3	4.2	4.1	4.1	4.0	4.0	4.0	4.0	4.0	4.1	4.0
Export volume growth (percentage change) 3/	-7.7	5.1	15.0	22.4	13.2	7.7	7.4	7.2	6.9	6.8	6.7	6.6	8.4	6.2
Import volume growth (percentage change) 3/	1.7	6.1	8.1	7.2	9.9	6.7	6.8	6.0	5.8	6.0	6.5	6.6	6.4	6.6
Terms of trade (percentage change)	7.7	-3.9	1.6	1.0	1.0	0.7	0.9	0.7	0.7	0.7	0.7	0.7	1.1	0.7

Sources: Tanzanian authorities; and staff estimates and projections.

1/ Exports (imports) of goods and nonfactor services as defined in IMF, *Balance of Payments Manual* (5th ed.), 1993.
2/ Imports of goods and nonfactor services.
3/ Merchandise exports (imports).

Table 9. Tanzania Balance of Payments, 1999-2018

(In millions of U.S. dollars, unless otherwise indicated)

	1999 Prel.	2000	2001	2002	2003	2004	2005	2006	2007	1999-2008	2009-2018
		Projections								Averages	
Trade account	-1,090	-1,196	-1,255	-1,307	-1,361	-1,458	-1,514	-1,589	-1,686	-1,424	-2,723
Exports, f.o.b.	541	552	652	814	940	1,029	1,127	1,227	1,333	966	2,262
Traditional	279	257	279	298	320	342	367	392	419	340	681
Nontraditional	262	295	373	516	619	687	759	835	914	626	1,581
Imports, c.i.f.	-1,631	-1,748	-1,907	-2,121	-2,301	-2,487	-2,640	-2,816	-3,019	-2,390	-4,985
Services (net)	-239	-240	-246	-256	-244	-197	-153	-121	-76	-181	380
Receipts	672	713	780	847	927	1,016	1,116	1,226	1,347	1,012	2,444
Payments	-911	-953	-1,026	-1,103	-1,171	-1,213	-1,269	-1,347	-1,423	-1,193	-2,064
Interest	-85	-84	-83	-83	-84	-86	-89	-91	-94	-88	-117
Other services	-826	-869	-943	-1,020	-1,087	-1,127	-1,181	-1,256	-1,329	-1,105	-1,947
Private transfers (net)	34	36	38	40	43	45	48	51	54	45	80
Current account (excluding official transfers)	-1,295	-1,400	-1,463	-1,523	-1,562	-1,610	-1,619	-1,660	-1,707	-1,560	-2,263
Official transfers (net)	737	796	778	786	794	783	783	783	784	781	917
Project financing	606	630	648	666	684	703	723	743	764	695	917
Program financing	130	167	130	120	110	80	60	40	20	86	0
Current account (including official transfers)	-558	-603	-685	-737	-768	-826	-836	-876	-923	-779	-1,346
Capital account	588	493	536	610	685	746	807	862	916	722	1,383
Loan inflow	469	518	522	547	574	603	633	665	699	596	986
Official project financing	349	370	378	401	425	450	477	506	536	446	794
Official program financing	81	106	100	100	100	100	100	100	100	99	100
Other loans	39	42	44	47	49	52	56	59	62	52	92
Amortization 1/	-223	-226	-207	-181	-152	-140	-132	-134	-140	-168	-219
Direct investment	183	201	221	244	263	284	307	331	358	278	615
Errors and omissions	159	0	0	0	0	0	0	0	0	16	0
Overall balance	30	-110	-149	-127	-83	-80	-28	-14	-7	-58	37
Financing	-30	110	149	127	83	80	28	14	7	58	-37
Change in net foreign assets (increase -)	-129	-48	-18	-73	-87	-61	-112	-128	-139	-94	-162
Bank of Tanzania (increase -)	-114	-48	-18	-73	-87	-61	-112	-128	-139	-92	-162
Gross reserves	-177	-78	-51	-106	-83	-27	-69	-78	-87	-85	-150
Use of Fund credit	50	30	33	33	-4	-34	-43	-50	-52	-9	-13
Purchases	80	56	56	56	21	0	0	0	0	27	0
Repurchases	-30	-26	-23	-23	-25	-34	-43	-50	-52	-36	-13
Other (net)	13	0	0	0	0	0	0	0	0	1	0
Commercial banks (increase -)	-15	0	0	0	0	0	0	0	0	-2	0
Arrears (increase +) 2/	-1,163	-1,175	0	0	0	0	0	0	0	-234	0
Debt relief 3/	1,263	0	0	0	0	0	0	0	0	126	0
Operational financing gap 4/	0	1,334	167	200	170	141	140	142	147	259	126
Memorandum items:											
Gross official reserves (central bank)	775.6	853.7	904.3	1,010.0	1,092.8	1,119.5	1,188.2	1,265.7	1,353.1	1,100.8	2,179.8
In months of imports of goods and nonfactor services	4.1	4.2	4.2	4.3	4.2	4.0	4.0	4.0	4.0	4.1	4.0
Current account deficit 5/											
Excluding official transfers	-15.1	-15.9	-15.4	-14.8	-14.4	-13.9	-12.5	-11.8	-11.5	-13.6	-9.4
Including official transfers	-6.5	-6.9	-7.2	-7.2	-7.1	-7.1	-6.4	-6.2	-6.2	-6.7	-5.5
Including official transfers and the grant element of IDA/African Development Fund loans	-4.0	-4.2	-4.7	-4.8	-4.7	-4.8	-4.2	-4.1	-4.1	-4.4	-3.7

Sources: Tanzanian authorities; and staff estimates and projections.

1/ Includes amounts due to all creditors (excluding IMF), before debt rescheduling and debt relief.
2/ Includes reduction of arrears granted by Paris Club creditors; for 2000, arrears to non-Paris Club creditors are assumed to be restructured.
3/ January 21, 1997 Paris Club rescheduling agreement, including assumed implementation of a bilateral agreement with Russia in 1998/99, involving an up-front discount of 80 percent on all Russian claims and a flow rescheduling on Naples terms.
4/ The financing gap is assumed to be covered by debt relief extended by bilateral official creditors, and additional financing from multilateral institutions in the context of the HIPC Initiative.
5/ In percent of GDP.

Table 10. Tanzania: Net Present Value of External Debt Before and After Reschedulings, 1998/99-2017/18 1/
(In millions of U.S dollars, unless otherwise indicated)

	1998/99 Est.	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	1999/2000-2008/09	2009/10-2017/18
		Projected								Average	
Before debt relief											
1. NPV of total debt (2+5)	4,613.0	4,689.5	4,778.3	4,885.5	5,052.9	5,210.0	5,386.9	5,579.7	5,779.8	5,359.4	7,813.6
2. NPV of old debt (3+4)	4,613.0	4,487.1	4,337.5	4,192.5	4,094.0	3,999.4	3,905.0	3,811.0	3,713.0	3,969.1	2,969.9
3. Official bilateral and commercial	2,715.2	2,606.2	2,476.0	2,350.6	2,273.8	2,215.1	2,169.5	2,123.2	2,073.7	2,227.5	1,619.4
Paris Club	1,791.9	1,694.9	1,577.7	1,462.6	1,393.3	1,342.2	1,302.7	1,262.4	1,218.0	1,354.4	787.5
Other official bilateral and commercial	923.4	911.3	898.3	888.0	880.4	872.8	866.7	860.8	855.7	873.1	831.9
4. Multilateral	1,897.7	1,880.9	1,861.5	1,841.9	1,820.2	1,784.3	1,735.5	1,687.8	1,639.3	1,741.7	1,350.4
5. NPV of new debt	0.0	202.4	440.8	693.0	959.0	1,210.6	1,481.9	1,768.7	2,066.8	1,390.3	4,843.8
Memorandum items:											
Exports of goods and nonfactor services 2/	1,080.6	1,191.1	1,293.1	1,489.4	1,705.6	1,892.9	2,075.0	2,272.2	2,483.7	2,006.1	4,519.6
Three-year export average 3/	1,161.7	1,134.6	1,188.3	1,324.5	1,496.0	1,696.0	1,891.2	2,080.1	2,277.0	1,829.0	4,177.8
NPV of debt-to-exports ratio (in percent) 5/	397.1	413.3	402.1	368.9	337.8	307.2	284.8	268.2	253.8	310.7	190.5
NPV of existing debt-to-exports ratio (in percent	397.1	395.5	365.0	316.5	273.7	235.8	206.5	183.2	163.1	241.5	75.9
NPV of Pre-COD ODA	239.8	239.7	239.6	239.4	239.3	239.1	239.0	238.8	238.6	239.0	235.8
After traditional debt relief mechanisms 6/											
1. NPV of total debt (2+5) 7/	3,768.7	3,936.0	4,111.2	4,308.6	4,524.2	4,731.7	4,944.6	5,169.6	5,399.4	4,868.2	7,534.9
2. NPV of old debt (3+4)	3,768.7	3,733.6	3,670.5	3,615.6	3,565.2	3,521.0	3,462.7	3,400.9	3,332.7	3,477.9	2,691.1
3. Official bilateral and commercial	1,871.2	1,855.4	1,814.2	1,781.5	1,755.3	1,747.0	1,737.5	1,723.4	1,703.6	1,745.0	1,350.9
Paris Club	1,481.2	1,487.2	1,469.4	1,457.7	1,452.2	1,447.5	1,439.9	1,428.1	1,411.7	1,435.6	1,116.1
Other official bilateral and commercial	390.1	368.3	344.9	323.8	303.1	299.6	297.7	295.3	291.9	309.4	234.8
4. Multilateral	1,897.5	1,878.2	1,856.2	1,834.1	1,809.9	1,774.0	1,725.2	1,677.5	1,629.0	1,732.9	1,340.1
5. NPV of new debt	0.0	202.4	440.8	693.0	959.0	1,210.6	1,481.9	1,768.7	2,066.8	1,390.3	4,843.8
Memorandum items:											
NPV of debt-to-exports ratio (in percent) 5/	324.4	346.9	346.0	325.3	302.4	279.0	261.5	248.5	237.1	279.1	183.6
NPV of existing debt-to-exports ratio (in percent	324.4	329.1	308.9	273.0	238.3	207.6	183.1	163.5	146.4	209.9	68.9
After enhanced HIPC Initiative assistance 8/											
1. NPV of total debt (2+5)	...	2,594.7	2,661.7	2,355.9	2,616.6	2,820.1	3,041.3	3,279.0	3,525.6	3,077.2	5,885.4
2. NPV of old debt (3+4)	...	2,392.3	2,220.9	1,662.9	1,657.7	1,609.5	1,559.4	1,510.3	1,458.8	1,686.9	1,041.6
3. Official bilateral and commercial	...	1,604.4	1,450.6	1,094.6	1,094.7	1,069.0	1,055.0	1,041.8	1,024.7	1,142.4	757.0
Paris Club	...	1,364.3	1,242.1	936.0	954.0	940.6	928.5	917.2	902.3	993.7	653.4
Other official bilateral and commercial	...	240.2	208.4	158.6	140.7	128.4	126.4	124.7	122.5	148.7	103.6
4. Multilateral	...	787.9	770.3	568.3	563.0	540.5	504.4	468.5	434.1	544.5	284.6
5. NPV of new debt	...	202.4	440.8	693.0	959.0	1,210.6	1,481.9	1,768.7	2,066.8	1,390.3	4,843.8
Memorandum items:											
NPV of debt-to-exports ratio 5/	...	228.7	224.0	177.9	174.9	166.3	160.8	157.6	154.8	174.8	141.8
NPV of existing debt-to-exports ratio (in percent	...	210.9	186.9	125.5	110.8	94.9	82.5	72.6	64.1	105.6	27.1
NPV of Paris Club Pre-COD ODA 5/	...	20.0	18.7	17.6	16.0	14.1	12.7	11.5	10.5	14.0	5.9
After enhanced HIPC Initiative assistance (assumed committed unconditionally) 9/											
1. NPV of total debt (2+5)	1,742.6	1,876.9	2,042.1	2,355.9	2,616.6	2,820.1	3,041.3	3,279.0	3,525.6	2,943.5	5,885.4
2. NPV of old debt (3+4)	1,742.6	1,674.5	1,601.4	1,662.9	1,657.7	1,609.5	1,559.4	1,510.3	1,458.8	1,553.2	1,041.6
3. Official bilateral and commercial	865.2	842.3	794.8	1,094.6	1,094.7	1,069.0	1,055.0	1,041.8	1,024.7	1,000.6	757.0
Paris Club	684.8	683.6	659.4	936.0	954.0	940.6	928.5	917.2	902.3	867.3	653.4
Other official bilateral and commercial	180.4	158.7	135.4	158.6	140.7	128.4	126.4	124.7	122.5	133.2	103.6
4. Multilateral	877.4	832.3	806.6	568.3	563.0	540.5	504.4	468.5	434.1	552.6	284.6
5. NPV of new debt	0.0	202.4	440.8	693.0	959.0	1,210.6	1,481.9	1,768.7	2,066.8	1,390.3	4,843.8
Memorandum items:											
NPV of debt-to-exports ratio 5/ 9/	150.0	165.4	171.9	177.9	174.9	166.3	160.8	157.6	154.8	163.3	141.8
NPV of existing debt-to-exports ratio (percent)	150.0	144.1	137.8	143.1	142.7	138.5	134.2	130.0	125.6	133.7	89.7
NPV of Paris Club Pre-COD ODA 5/	20.4	20.0	18.7	17.6	16.0	14.1	12.7	11.5	10.5	14.0	5.9

Sources: Tanzanian authorities; and staff estimates and projections.

1/ Refers to public and publicly guaranteed external debt only.
2/ As defined in IMF, *Balance of Payments Manual* (5th ed.), 1993.
3/ Backward-looking average (e.g., average over 1997-99 for exports in 1999).
4/ Revenues are defined as central government revenues, excluding grants.
5/ NPV of debt in percent of three-year average of exports of goods and services.
6/ Assumes full use of traditional debt-relief mechanisms, i.e., a Paris Club stock-of-debt operation on Naples terms (67 percent NPV reduction) at end-June 1999, and at least comparable action by other official bilateral and commercial creditors.
7/ Discounted on the basis of the average commercial interest reference rate for the respective currency, derived over the six-month period prior to end-June 1999. The conversion of currency-specific NPVs into U.S. dollars occurs for all years at the June 1999 exchange rate.
8/ The completion point is assumed to be reached in 2001/02; HIPC Initiative assistance is assumed to be committed and delivered unconditionally from then. The NPV of debt for 1999/2000 and 2000/01 shows only the effect of interim assistance.
9/ The NPV of debt for 1999/2000 and 2000/01 shows not only the impact of all interim relief, but also the impact of relief assumed to be delivered after the completion point (assumed to be in 2001/02).

Box 5. Tanzania: Baseline Assumptions in the Debt Sustainability Analysis (DSA)

Economic growth

The Tanzanian economy is assumed to grow by about 5.5 percent in 2000–02 and by an average annual rate of 6 percent thereafter. This projection is based on the assumption that further improvement in infrastructure and transportation, and normal weather conditions, will allow for agricultural growth of 6 percent a year. Investments in privatized parastatal enterprises and new mines are expected to lead to growth in manufacturing of 7 percent and in mining of up to 20 percent a year. Economic growth will also be supported by a continuation of liberalization and public sector reform.

Exports and imports

Traditional export volumes are assumed to grow at 4–6 percent, and the volume of nontraditional exports (excluding gold) and tourism receipts are projected to increase at a faster pace than GDP. Export prices are assumed to increase in line with the forecasts of the Fund's World Economic Outlook and the World Bank's Commodity Division. Gold exports are assumed to increase from US$33 million in 1999 to over US$100 million in 2002, reflecting the coming on stream of new gold mines (see p. 29 of the preliminary HIPC document for more details); the price of gold over the medium term is assumed to remain unchanged at US$290 per ounce. The ratio of exports of goods and nonfactor services to GDP rises from 13.6 percent in 1999 to 18 percent by 2009.

Import volumes are projected to grow somewhat faster than GDP, driven by high investment needs.

Capital account

Direct investment—mainly in mining, agriculture, agroprocessing, and tourism—is projected to increase in line with GDP from an average of US$278 million a year in 1999–2008 to US$615 million a year in 2009–18.

New project loans, which would be on concessional IDA terms in line with Tanzania's debt strategy, are projected to increase at the same rate as real GDP, while program loans are assumed to remain constant at about US$100 million a year throughout the projection period. It is assumed that the economy will become gradually less dependent on official transfers, and, accordingly, program grants are assumed to be phased out by 2008.

The financing gap is assumed to be covered largely by debt relief from Paris Club creditors and non-Paris Club bilateral and commercial creditors, and by assistance from multilateral institutions in the context of the enhanced HIPC Initiative.

Gross official reserves would remain at the equivalent of about four months of imports of goods and nonfactor services throughout the projection period.

Debt burden indicators

48. The scenario for the DSA assumes a hypothetical Naples terms stock-of-debt operation with Paris Club creditors at end-June 1999, with at least comparable treatment from non-Paris Club bilateral and commercial creditors. The government's debt to commercial creditors is also assumed to benefit from a commercial debt buyback operation supported by the IDA Debt Reduction Facility (for details see Box 3 of the preliminary HIPC document), which was launched by the Government of Tanzania on October 25, 1999.

49. Based on these assumptions and on the policies outlined above, debt-burden indicators show that, even after the full application of all traditional existing relief mechanisms, Tanzania's external debt would remain unsustainable. The NPV of debt-to-exports ratio would decline from 324.4 percent (after rescheduling) at end-June 1999 to

325.3 percent at end-2001/02 and would go below the threshold of 150 percent only after 2017/18 (Figure 2). The external debt-service ratio would decline gradually from about 18.2 percent of exports in 1999/00 to about 11.2 percent by 2006/07 (Table 11).

Debt sustainability after enhanced HIPC Initiative assistance

50. With enhanced HIPC Initiative assistance, NPV of debt-to-exports ratio is projected to decline from 228.7 percent in 1999/2000 to 177.9 percent by 2001/02 (see Table 10 and Figure 3). If additional ODA debt forgiveness by Paris Club creditors were to be taken into account, the NPV debt-to-exports ratio would be about 150 percent in 2001/02. While the NPV of existing debt-to-exports ratio shows a steadily declining trend, the NPV of new debt-to-exports ratio increases rapidly in the initial years, reflecting mainly pipeline-related new multilateral disbursements (assumed to be obtained on IDA terms) for physical and social infrastructure. Subsequently, new financing is expected to grow at a slower pace than the overall economy. Without new borrowing, the NPV of debt-to-exports ratio falls to 125.5 percent by 2001/02. Over the medium term, the overall NPV ratio (including new borrowing) declines to 136 percent by the end of the projection period. The debt-service ratio would decline from 24.8 percent (before rescheduling) in 1999/2000 to about 9.5 percent by 2001/02 (compared with 16.1 percent under traditional relief mechanisms); by the end of the projection period, the debt-service ratio would stabilize at about 5 percent (Table 12 and Figure 3). In the hypothetical scenario with enhanced HIPC assistance assumed committed unconditionally at end-June 1999, the NPV of debt-to-exports ratio also rises, initially reflecting new disbursements, and declines gradually after 2001/02.

B. Assistance Under the Enhanced HIPC Initiative

Required assistance

51. The calculation of the amount of assistance under the HIPC Initiative has been based on end-June 1999 debt data and the average annual exports for the three years ending June 1999. The breakdown of total assistance between multilateral and bilateral creditors takes into account a proportional burden sharing based on the NPV of debt shares at end-June 1999. Similarly, for the breakdown of total multilaterals' assistance, their individual share of the NPV at end-June 1999 is used, multiplied by the total amount of multilateral assistance required at the decision point. The breakdown between Paris Club and non-Paris Club creditors is based on their respective shares in overall exposure after full application of traditional debt-relief mechanisms at the decision point.

52. As detailed in Table 13, the required assistance at the decision point to bring Tanzania's external debt to a sustainable level, as defined by the threshold of NPV of debt-to-exports ratio of 150 percent, amounts to US$2.0 billion in NPV terms. This implies a common reduction factor for multilateral and bilateral commercial creditors of 53.8 percent on debt outstanding at end-June 1999 after traditional debt relief mechanisms. Preliminary calculations suggest that Paris Club creditors could provide their share of assistance with an NPV reduction of about 85 percent of eligible debt.

Table 11. Tanzania: External Debt Service Before and After Hypothetical Naples Terms Stock-of-Debt Operation, 1999/2000-2017/18
(In millions of U.S. dollars, unless otherwise indicated)

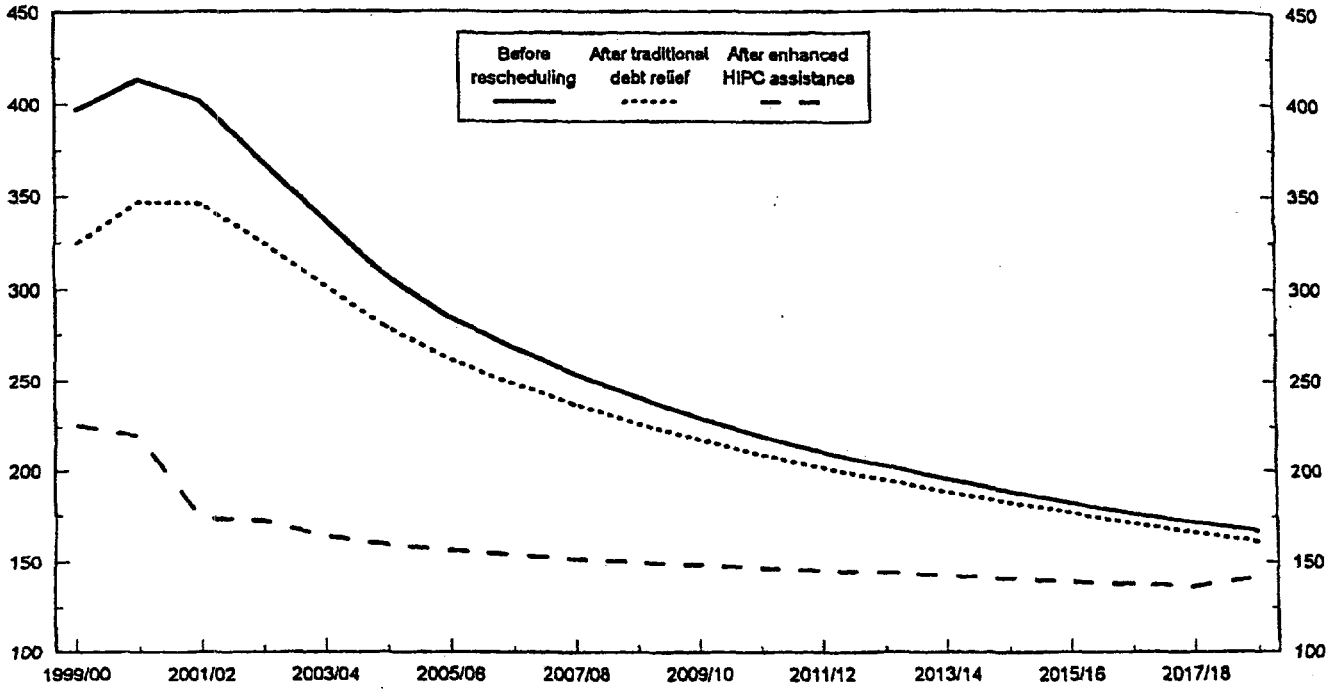
	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	1999/2000-2008/09	2009/10-2017/18
	Act.	Projections							Average	
Total debt service before rescheduling 1/	295.0	317.8	310.9	262.7	258.8	259.0	264.7	280.8	283.3	345.3
Principal	209.8	233.6	227.7	180.1	175.2	174.0	177.4	191.0	196.4	232.5
Multilateral	83.1	86.0	86.2	88.2	102.2	114.3	111.7	110.9	97.7	102.2
Of which: IMF	28.6	22.9	23.4	22.8	28.0	40.7	40.7	37.2	27.9	0.0
World Bank	30.9	40.6	44.2	48.2	55.2	55.1	54.3	58.5	51.5	84.4
Official bilateral	124.8	145.7	139.8	91.9	73.1	59.7	60.1	63.3	89.3	75.2
Paris Club	110.3	130.7	127.7	81.1	62.5	50.9	51.7	55.9	79.2	71.6
Of which: Official Development Assistance	13.7	14.2	14.0	13.9	14.0	14.0	14.0	14.0	13.8	3.0
Non-Paris Club	14.6	15.0	12.1	10.8	10.5	8.7	8.4	7.4	10.1	3.7
Commercial	1.8	1.8	1.7	0.0	0.0	0.0	0.0	0.0	0.5	0.0
New debt	0.0	0.0	0.0	0.0	0.0	0.0	5.6	16.8	8.8	55.2
Interest	85.2	84.2	83.2	82.7	83.6	85.0	87.3	89.8	86.9	112.8
Multilateral	28.4	27.2	26.0	25.0	24.1	23.0	22.1	21.2	23.7	15.4
Of which: IMF	1.4	1.2	1.1	1.0	0.9	0.7	0.5	0.3	0.7	0.0
World Bank	19.6	19.1	18.5	18.0	17.5	16.8	16.4	16.0	17.2	12.1
Official bilateral	52.8	48.9	44.9	40.9	38.3	36.2	34.6	32.9	39.0	18.0
Paris Club	51.6	47.9	44.0	40.2	37.7	35.7	34.2	32.6	38.4	17.9
Of which: ODA	4.1	3.7	3.4	3.1	2.7	2.4	2.1	1.7	2.6	0.3
Non-Paris Club	1.2	1.0	0.9	0.7	0.6	0.5	0.4	0.3	0.6	0.1
Commercial	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New debt	3.8	8.0	12.3	16.8	21.2	25.8	30.7	35.7	24.2	79.4
Total debt service after rescheduling 2/	216.7	247.0	239.4	236.4	231.8	248.4	259.5	279.1	254.5	379.4
Memorandum items:										
Exports of goods and nonfactor services	1,191.1	1,293.1	1,489.4	1,705.6	1,892.9	2,075.0	2,272.2	2,483.7	*2,006.1*	*4,519.6*
Debt-service ratio before rescheduling (in percent)	24.8	24.6	20.9	15.4	13.7	12.5	11.6	11.3	15.5	7.8
Debt-service ratio after rescheduling (in percent)	18.2	19.1	16.1	13.9	12.2	12.0	11.4	11.2	13.5	8.5

Sources: Tanzanian authorities; and staff estimates and projections.

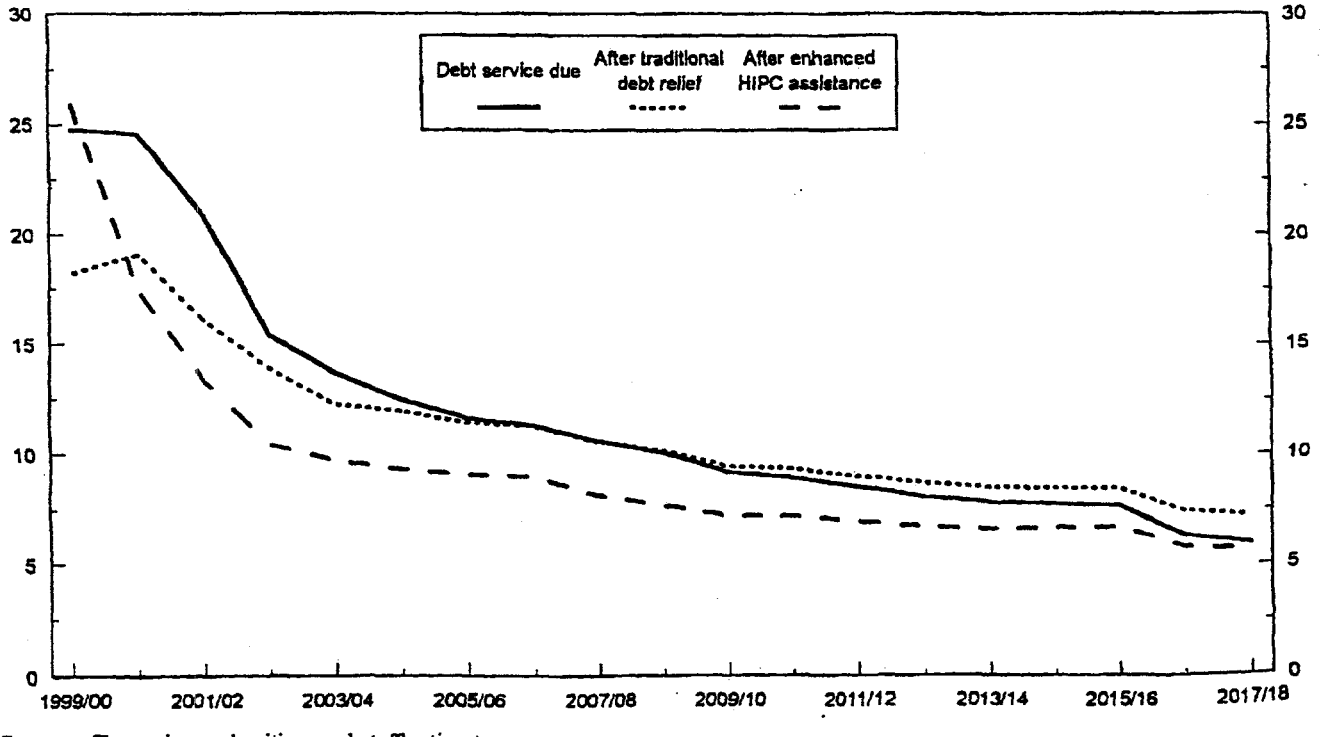
1/ On a scheduled basis; debt service is shown before debt relief, exclusive of debt service on rescheduled debt.
2/ Assumes a stock-of-debt operation on Naples terms at end-June 1999 and at least comparable treatment from other official bilateral creditors.

Figure 3: Tanzania:
External Debt Profile, 1999/2000-2017/18
(In percent)

Ratio of Net Present Value of Debt to Exports 1/



Ratio of Debt Service to Exports



Sources: Tanzanian authorities; and staff estimates.

1/ Three-year average of exports.

Table 12. Tanzania: External Debt Service After Enhanced HIPC Initiative, 1999/2000-2017/18 1/

(In millions of U.S. dollars, unless otherwise specified)

	1999/2000 Est.	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	1999/2000-2008/09	2009/10-2017/18
		Projections							Averages	
Total debt service after rescheduling 1/	235.5	153.8	141.8	143.8	148.5	151.8	158.2	174.4	167.5	258.0
Principal	167.4	97.5	82.3	80.4	81.8	81.4	83.6	95.4	96.6	142.6
Multilateral	83.2	47.8	30.2	25.9	42.2	53.9	51.5	48.2	44.5	30.2
Of which: IMF	24.8	3.8	0.0	0.0	13.9	26.8	27.2	24.2	13.2	0.0
World Bank	30.4	16.9	15.2	15.5	17.1	16.7	16.1	16.9	18.1	22.0
Official bilateral	79.9	43.0	45.5	47.9	36.3	27.4	26.5	30.4	40.5	57.0
Paris Club	63.4	23.1	28.2	31.0	24.6	23.3	22.6	26.2	30.1	52.3
Of which: Official Development Assistance	8.1	0.0	0.0	3.5	0.0	0.0	0.0	0.0	1.2	0.5
Non-Paris Club	16.5	19.9	17.3	16.9	11.7	4.1	3.9	4.2	10.4	4.7
Commercial	4.3	6.7	6.7	6.7	3.4	0.0	0.0	0.0	2.8	0.3
New debt	0.0	0.0	0.0	0.0	0.0	0.0	5.6	16.8	8.8	55.2
Interest	68.2	56.3	59.5	63.4	66.6	70.4	74.5	79.0	71.0	115.4
Multilateral	19.9	13.3	10.3	8.6	9.1	9.1	8.9	9.0	10.5	9.4
Of which: IMF	0.7	0.1	0.0	0.0	0.4	0.7	0.7	0.6	0.4	0.0
World Bank	10.6	5.4	5.3	5.4	5.8	5.8	5.8	6.1	6.3	7.9
Official bilateral	43.4	33.5	35.8	37.3	35.9	35.1	34.6	33.9	35.6	26.3
Paris Club	39.5	27.3	30.2	32.4	31.6	30.9	30.4	29.8	31.0	23.0
Of which: ODA	2.5	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.3	0.0
Non-Paris Club	3.9	6.2	5.5	4.9	4.3	4.3	4.2	4.2	4.6	3.3
Commercial	1.0	1.5	1.1	0.7	0.4	0.4	0.4	0.4	0.7	0.3
New debt	3.8	8.0	12.3	16.8	21.2	25.8	30.7	35.7	24.2	79.4
Total debt service before rescheduling	295.0	317.8	310.9	262.7	258.8	259.0	264.7	280.8	283.3	345.3
Memorandum items:										
Exports of goods and nonfactor services	1,191.1	1,293.1	1,489.4	1,705.6	1,892.9	2,075.0	2,272.2	2,483.7	2,006.1	4,519.6
Debt-service ratio before rescheduling (in percent)	24.8	24.6	20.9	15.4	13.7	12.5	11.6	11.3	15.5	7.8
Debt-service ratio after rescheduling (in percent)	19.8	11.9	9.5	8.4	7.8	7.3	7.0	7.0	9.2	5.8

Sources: Tanzanian authorities; and staff estimates and projections.

1/ Debt service is shown after enhanced HIPC Initiative debt relief. The completion point is assumed in 2001/02.

Table 13. Tanzania: Assistance Under the HIPC Initiative 1/

(In millions of U.S. dollars, unless otherwise indicated)

	Total Assistance Under the NPV of Debt-to-Exports Criterion 2/			Common reduction factor at the decision point 4/ (In percent)	Memorandum item: Required NPV Debt Reduction on Paris Club Debt Assuming Comparable Action by Nonmultilateral Creditors
	Total	Bilateral 3/	Multilateral		
	2,026	1,006	1,020	54	
Memorandum items:					
NPV of debt 5/	3,845	1,957	1,887		
Three-year average of exports	1,162	...	...		
Current-year exports	1,081	...	...		
NPV of debt-to-exports ratio 6/	331	...	...		
Paris Club Creditors		1,481			85
Of which: pre-cutoff non-ODA		1,125			85
Non-Paris Club Creditors		390			85
Of which: pre-cutoff non-ODA		240			82

Sources: Tanzanian authorities; and staff estimates and projections.

1/ The proportional burden-sharing approach is described in "HIPC Initiative—Estimated Costs and Burden-Sharing Approaches" (EBS/97/127, 7/7/97, and IDA/SEC M 97-306, 7/7/97).

2/ Applies a hypothetical stock-of-debt operation on Naples terms and appropriate comparable treatment by other official bilateral creditors at end-June 1999. The NPV of debt-to-exports target is 150 percent.

3/ Includes official bilateral and commercial creditors.

4/ Each creditor's NPV reduction at the decision point (after traditional relief mechanisms), in percent of its exposure at the decision point.

5/ Based on end-June 1999 data and after a hypothetical full application of traditional debt-relief mechanisms.

6/ Based on the three-year export average (backward-looking average).

Delivery of assistance

53. The following assumptions were made regarding the delivery of assistance and interim assistance: (i) the total amount of assistance required and the individual shares are calculated at the decision point; and (ii) the agreed modalities for implementing HIPC Initiative assistance under the enhanced framework apply.

Multilateral institutions

54. The IMF is assumed to begin delivering its assistance of US$119.8 million, in net present value terms, in the form of interim relief, and at the completion point (Table 14). Interim assistance during the first year of the program supported by the PRGF would amount to about US$18 million (or 15 percent of the IMF's total assistance committed at the decision point), the amount provided would cover roughly three-quarters of debt service falling due to the IMF during the first year of the program. The suggested profile of assistance would be consistent with a declining trend in the NPV ratio after assistance under the HIPC Initiative.

55. IDA's assistance of US$694.5 million in NPV terms is proposed to be delivered over the next 20 years by providing 69.1 percent relief of Tanzania's debt service falling due to IDA (between April 1, 2000 and March 31, 2020) on disbursed and outstanding IDA credits as of end-June 1999.[15] The reduction in debt service amounts to US$9.5 million for the remainder of FY 2000 (April–June 2000). The average annual reduction in debt service amounts to about US$47.7 million during FY2001–2009, and to about US$67.0 million during FY2010–2019. For the first nine months of FY2020, the reduction in debt service amounts to about US$49 million. The details of IDA's assistance are further illustrated in Table 15.

56. Other multilateral institutions are assumed to provide their assistance at the completion point, by reducing the debt service until their required NPV assistance has been achieved.

Bilateral and commercial creditors

57. For Paris Club creditors, a flow rescheduling on Cologne terms is assumed from January 2000 until the assumed completion point. The cash flow relief as well as the NPV relief resulting from the difference between this flow rescheduling on Cologne terms and a hypothetical flow rescheduling on Naples terms is counted as interim relief. The remaining amount of required assistance is then delivered through a Cologne-terms stock-of-debt operation at the completion point. The same assumption (i.e., comparable treatment with that of Paris Club creditors) was made for non-Paris Club bilateral and commercial creditors.

---

[15] IDA/R200-4 (1/10/2000) entitled "Heavily Indebted Poor Countries (HIPC) Initiative: Note on Modalities for Implementing HIPC Debt Relief Under the Enhanced Framework."

Table 14. Tanzania: Possible Delivery of IMF Assistance Under the HIPC Initiative, 1999/2000-2008/09 1/
(In millions of U.S. dollars, unless otherwise indicated)

	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Delivery schedule of IMF assistance (share of total) 2/	3.8	15.0	14.0	13.8	8.9	8.9	8.9	8.9	8.9	8.9
Total obligations falling due to the IMF 3/	29.9	24.1	24.6	23.8	28.9	41.4	41.2	37.5	22.3	12.7
Principal	28.6	22.9	23.4	22.8	28.0	40.7	40.7	37.2	22.2	12.6
Interest	1.4	1.2	1.1	1.0	0.9	0.7	0.5	0.3	0.1	0.0
IMF assistance deposit into escrow account 2/	4.5	18.0	97.4	-	-	-	-	-	-	-
IMF assistance—drawdown schedule 4/	4.5	20.2	24.6	23.8	14.7	13.9	13.3	12.7	12.1	11.6
Net debt service to IMF 5/	25.5	3.9	0.0	0.0	14.2	27.5	27.9	24.8	10.2	1.1
Share of debt service to IMF covered by IMF assistance (in percent) 4/	15.0	83.6	100.0	100.0	50.7	34.1	32.7	34.2	54.8	91.6
Memorandum items:										
Total debt service due 6/	216.7	247.0	239.4	236.4	231.8	248.4	259.5	279.1	286.5	299.8
Share of total debt service covered by IMF assistance (in percent) 4/	2.1	8.2	10.3	10.1	6.3	5.6	5.1	4.6	4.2	3.9
Debt service to IMF after IMF assistance 4/ (in percent of exports)	2.1	0.3	0.0	0.0	0.8	1.3	1.2	1.0	0.4	0.0

Sources: Tanzanian authorities; and staff estimates and projections.

1/ All years on July-June fiscal-year basis.

2/ Total IMF assistance under the HIPC Initiative is US$119.8 millions in net present value terms calculated on the basis of data available at the decision point, excluding interest earned on the escrow account and on committed but undisbursed amounts, as described in footnote 3.

3/ As of end-June 1999.

4/ Includes estimated interest earnings on: (1) amounts held in escrow; and (2), up to the completion point, amounts committed but not yet disbursed. It is assumed that these amounts earn a rate of return of 5.25 percent in U.S. dollar terms; actual interest earnings may be higher or lower. Interest accrued (1) during a calendar year will be used toward the first repayment obligation(s) falling due in the following calendar year except in the final year, when it will be used toward payment of the final obligation falling due in that year. Interest accrued (2) during the period of interim assistance will be used toward repayment obligations falling due during the three years after the completion point.

5/ Total obligations less HIPC Initiative assistance.

6/ After traditional debt relief mechanisms and assistance (if any) under the original HIPC Initiative.

Table 15. Tanzania: Estimated Delivery of World Bank's Assistance Under the Enhanced HIPC Initiative, 2000-2020 1/
(In millions of U.S. dollars, unless otherwise indicated)

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Projected debt service to IDA before HIPC Initiative assistance 4/		44.9	54.2	59.7	63.2	69.6	70.4	70.7	74.5	78.4	80.1	84.9	91.3	94.4	96.6	100.7	100.3	99.7	99.8	101.2	100.1	99.1
IDA debt service reduction		9.5	37.5	41.2	43.7	48.1	48.7	48.9	51.5	54.2	55.3	58.7	63.1	65.2	66.8	69.6	69.3	68.9	69.0	69.9	69.2	49.0
Projected remaining debt service to IDA		35.4	16.7	18.4	19.5	21.5	21.7	21.8	23.0	24.2	24.7	26.2	28.2	29.1	29.8	31.1	31.0	30.8	30.8	31.3	30.9	50.1
Memorandum items:																						
Percentage reduction of IDA debt service 4/		69.1 2/	69.1	69.1	69.1	69.1	69.1	69.1	69.1	69.1	69.1	69.1	69.1	69.1	69.1	69.1	69.1	69.1	69.1	69.1	69.1	69.1 3/
Percentage reduction on total debt service5/		4.4	15.7	18.2	19.9	22.8	21.9	21.9	22.7	24.9	25.7	27.5	27.9	27.9	27.3	27.0	25.9	24.5	28.7	29.3	28.4	20.0
HIPC Initiative assistance in NPV terms	694.5																					
HIPC Initiative assistance in nominal terms	1,157.1																					

Sources: Tanzanian authorities; and World Bank staff estimates and projections.

1/ All years on July-June fiscal-year basis.
2/ Depending on when the floating completion point is reached, IDA's assistance may be lower than indicated in this table during the first few years, due to the one-third limit of IDA's assistance during the Interim Period.
3/ For 2000, the 69.1 percent debt-service reduction applies only to the remaining debt service due to IDA between April1-June30, 2000.
4/ For 2020, the 69.1 percent debt-service reduction applies only to the debt service due to IDA between July 1 and March 31, 2020.
5/ Before new borrowing, i.e. on disbursed and outstanding debt as of end-June 1999.
6/ After traditional debt relief mechanisms and before new borrowing.

58. Participants in the Cologne summit in June 1999 agreed that ODA debts should be written off in their entirety. If such a write-off of Paris Club pre-cutoff ODA were to occur at the assumed completion point (2001/02), the NPV of debt after enhanced HIPC Initiative would decline by a further 17.6 percentage points, to about 160 percent at end-2001/02.

Sensitivity analysis

59. The medium-term balance of payments projections for Tanzania are subject to substantial uncertainties regarding traditional export volumes and the outlook for gold, as reflected in gold production levels and the export price of gold. The conclusions of the sensitivity analysis presented here remain broadly unchanged from those presented in the preliminary HIPC document. Specifically, the baseline which is assumed to include enhanced HIPC assistance is compared with scenarios in which (i) the growth rate of traditional export volumes is reduced by 50 percent; and (ii) the new gold mines are assumed to reach only half the production potential assumed in the baseline. These scenarios are based on the assumption that there are no policy adjustments to the shocks, including the maintenance of an unchanged reserves objective from the baseline. The results of the sensitivity analysis are summarized in Table 16.

60. Under the scenario with lower growth in traditional exports, the NPV of debt-to-exports ratio over the projection period would on average be about 5 percentage points above the baseline scenario; the ratio would not reach the 150 percent threshold until after 2013/14 (as against 2007/08 in the baseline). The debt-service ratio would be higher by an average of about 3.4 percentage points a year over the projection period. On the less favorable outlook for gold production, the NPV of debt-to-exports ratio would be 13 percentage points higher than the baseline throughout the projection period, and almost 4 percentage points in the case of the debt service ration.

61. The Paris Club creditors have expressed willingness to provide their share of HIPC Initiative debt relief. Following the decision point, World Bank and Fund staffs will seek confirmation from other creditors of their willingness to provide their proportional share.

Table 16. Tanzania: External Debt Indicators — Baseline Scenario and Sensitivity Analysis, 1999/2000-2017/18 1/

	1999/2000 Est.	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	1999/2000 2008/09	2009/10-2017/18
		Projections								
					(In millions of U.S. dollars)					
Net present value (NPV) of debt before rescheduling	4,689.5	4,778.3	4,885.5	5,052.9	5,210.0	5,386.9	5,579.7	5,779.8	5,359.4	7,813.6
NPV of debt after enhanced HIPC Initiative 2/	2,594.7	2,661.7	2,355.9	2,616.6	2,820.1	3,041.3	3,279.0	3,525.6	3,077.2	5,885.4
Multilateral	787.9	770.3	568.3	563.0	540.5	504.4	468.5	434.1	544.5	284.6
Official bilateral	1,572.2	1,427.1	1,077.8	1,084.1	1,061.5	1,047.5	1,034.4	1,017.3	1,129.6	751.1
Paris Club	1,364.3	1,242.1	936.0	954.0	940.6	928.5	917.2	902.3	993.7	653.4
Non-Paris Club	207.9	185.0	141.8	130.1	121.0	119.0	117.2	115.1	136.0	97.7
Commercial	32.2	23.4	16.8	10.6	7.5	7.4	7.4	7.4	12.7	5.9
New debt	202.4	440.8	693.0	959.0	1,210.6	1,481.9	1,768.7	2,066.8	1,390.3	4,843.8
					(In percent of exports of goods and nonfactor services)					
NPV of debt-to-exports ratio 3/	228.7	224.0	177.9	174.9	166.3	160.8	157.6	154.8	174.8	141.8
Of which: multilateral	69.4	64.8	42.9	37.6	31.9	26.7	22.5	19.1	34.6	7.5
Debt-service ratio 4/	19.8	11.9	9.5	8.4	7.8	7.3	7.0	7.0	9.2	5.8
Of which: multilateral	8.7	4.7	2.7	2.0	2.7	3.0	2.7	2.3	3.2	0.9
					(In percent)					
NPV of debt-to-revenue ratio 5/	266.0	251.0	198.4	204.4	200.3	195.0	182.3	179.0	203.6	158.1
NPV of debt-to-GDP ratio	355.9	357.2	310.1	337.8	357.2	378.8	402.2	426.2	385.7	653.9
Grant element in total debt	35.5	37.0	38.3	39.3	40.2	41.1	41.9	42.6	40.3	46.1
Grant element in new borrowing	61.2	59.8	58.9	58.3	58.1	57.7	57.3	57.0	58.2	54.4
Sensitivity analysis										
NPV of debt-to-exports ratio										
Lower agricultural export volumes 6/	228.7	224.3	178.8	176.8	169.0	164.2	161.7	159.5	177.7	149.6
Less favorable outlook for gold exploration 7/	228.7	224.2	179.0	179.1	174.9	173.8	173.6	172.1	184.4	159.0
Debt-service ratio										
Lower agricultural export volumes 6/	19.8	19.2	16.2	14.1	12.5	12.3	11.8	11.6	13.9	9.0
Less favorable outlook for gold 7/	19.8	19.2	16.3	14.5	13.3	13.2	12.7	12.6	14.5	9.6

Sources: Tanzanian authorities; and staff estimates and projections.

1/ All debt indicators refer to public and publicly guaranteed debt.
2/ Assumes the floating completion point is reached in 2001/02.
3/ Three-year backward-looking average of exports of goods and services.
4/ Ratio of debt service due (after enhanced HIPC Initiative assistance) to the three-year backward-looking average of exports of goods and nonfactor services.
5/ Revenues are defined as central government revenues, excluding grants.
6/ Assumes that starting in 2001, growth in traditional exports is only half that of the baseline scenario.
7/ Assumes that starting in 2001, the new gold mines (Golden Pride, Bulyanhulu/Kahama, Geita mines, and Africa Mashariki) produce at only half the normal capacity assumed in the baseline scenario.

VI. Issues for Discussion

62. The staffs and management of the Bank and the IMF strongly support the plans of the government of Tanzania for enhancing growth and reducing poverty. The policies described in the medium-term policy matrix attached to the PRSP and summarized in this document should put the country on a path of sustainable higher growth and lower the incidence of poverty. The conditions for reaching the completion point under the HIPC Initiative reflect the key issues in the government's program and will allow adequate monitoring of the implementation of those policies. Interim relief would speed up the implementation of spending plans in the priority sectors, which were established through consultative processes under the public expenditure review. However, Tanzania's economy remains vulnerable to exogenous shocks, especially climatic conditions, which could slow the attainment of the objectives. Moreover, the unsustainable debt burden facing the country leaves it highly dependent on the continuation of substantial financial assistance from the donor community.

63. The staffs seek decisions from Executive Directors on the following issues:

- **Eligibility and decision point.** The staffs and managements believe that Tanzania is eligible for relief under the enhanced HIPC Initiative and recommend approval of a decision point, based on the deliberations of the IDA and IMF Boards on the preliminary document and Tanzania's request for a three-year arrangement under the PRGF. Do Executive Directors agree that Tanzania has met the conditions for reaching the decision point under the enhanced HIPC Initiative?

- **Amount and delivery of assistance.** Consistent with a reduction in Tanzania's NPV of debt-to-exports ratio to 150 percent, total assistance under the enhanced HIPC Initiative is estimated to amount to US$2,102 million in NPV terms. Of this amount, US$706.3 million is to be provided by the IDA and US$121.9 million (SDR 92.6 million) by the IMF. In order to accelerate the provision of debt relief, the staff and management recommend that the IDA and the IMF provide interim assistance in line with the guidelines.[16] Do Directors agree with the staffs' recommendation of providing interim assistance between the decision and the floating completion point in line with the guidelines?

- **Floating completion point.** In line with the objectives of the enhanced HIPC Initiative, the staff and management recommend that Tanzania's floating completion point under the HIPC Initiative be triggered by successful implementation of a set of reform measures, as described in Box 3, and endorsement by the Boards of the

[16] IDA/R200-4 (1/10/2000) entitled "Heavily Indebted Poor Countries (HIPC) Initiative: Note on Modalities for Implementing HIPC Debt Relief Under the Enhanced Framework."

authorities' first annual report on implementation of the PRSP, provided a stable macroeconomic environment is maintained, as evidenced by performance under a program supported by an arrangement under the PRGF. Do Directors agree that the conditions described in Section IV are appropriate triggers for Tanzania's floating completion point?

HIPC Initiative: Status of Country Cases Considered Under the Initiative, March 2000

Country	Decision Point	Completion Point	NPV of Debt-to-Exports Target (In percent)	Assistance Levels 1/ (In millions of U.S. dollars, present value) Total	Bilateral	Multilateral	IMF	World Bank	Percentage Reduction in NPV of Debt 2/	Estimated Total Nominal Debt Service Relief (In millions of U.S. dollars)	Satisfactory Assurances from Other Creditors
Decision point reached under enhanced framework											
Bolivia 3/				1,302	425	876	84	194	30	2,060	
original framework	Sep. 97	Sep. 98	225	*448*	*157*	*291*	*29*	*53*			Received
enhanced framework	Feb.00	Floating	150	*854*	*268*	*585*	*55*	*141*			Being sought
Mauritania	Feb.00	Floating	137 4/	622	261	361	47	100	50	1,188	Being sought
Uganda 3/				1,003	183	820	160	517	40	1,950	
original framework	Apr. 97	Apr. 98	202	*347*	*73*	*274*	*69*	*160*			Received
enhanced framework	Feb.00	Floating	150	*656*	*110*	*546*	*91*	*357*			Being sought
Completion point reached under original framework											
Guyana	Dec. 97	May 99	107 4/	256	91	165	35	27	24	410	Received
Mozambique	Apr. 98	Jun. 99	200	1,716	1,076	641	125	381	63	3,700	Received
Decision point reached and assistance committed by IMF and World Bank under original framework											
Burkina Faso	Sep. 97	Apr. 00	205	115	21	94	10	44	14	200	Being sought
Côte d'Ivoire	Mar. 98	Mar. 01	141 4/	345	163	182	23	91	6 5/	800	Being sought
Mali	Sep. 98	Spring 00	200	128	37	90	14	44	10	250	Being sought
Total assistance provided/committed				5,487	2,257	3,229	498 6/	1,398		10,558	
Preliminary HIPC document issued 7/											
Ethiopia	...	...	200	636	225	411	22	214	23	1,300	...
Guinea	...	...	150	638	256	383	37	173	34	1,148	...
Guinea-Bissau	...	...	200	300	148	153	8	73	73	600	...
Honduras	...	...	137 4/	569	208	361	18	85	18	1,024	...
Nicaragua	...	...	150	2,507	1,416	1,091	32	188	66	5,000	...
Tanzania	...	...	150	2,485	1,314	1,171	110	728	59	5,000	...
No assistance required under original framework— to be reassessed under enhanced framework											
Benin	Jul. 97	...	...	...	...	...	...	...	...	...	...
Senegal	Apr. 98	...	...	...	...	...	...	...	...	...	...

Sources: IMF and World Bank Board decisions; completion point documents; decision point documents; preliminary HIPC Initiative documents; and staff calculations.

1/ Assistance levels are at countries' respective decision or completion points, as applicable.
2/ In percent of the net present value of debt at the decision or completion point (as applicable), after the full use of traditional debt-relief mechanisms.
3/ Uganda and Bolivia reached their completion points under the original framework of the HIPC Initiative in April 1998 and September 1998, respectively. Assistance under the original framework, of US$347 million for Uganda and US$448 million for Bolivia, is included in the figures provided for total assistance.
4/ Eligible under fiscal criteria; figures provided show the ratios of debt-to-exports that correspond to the targeted debt-to-revenue ratio. For Guyana and Cote d'Ivoire, a 280 percent NPV of debt-to-revenue ratio was targeted at the completion point; for Honduras and Mauritania, a 250 percent ratio was targeted at the decision point.
5/ Nonrescheduled debt to non-Paris Club official bilateral creditors and the London Club, which was already subject to a highly concessional restructuring, is excluded from the NPV of debt at the completion point in the calculation of this ratio.
6/ Equivalent to SDR 374 million at an SDR per U.S. dollar exchange rate of 0.744.
7/ Dates and figures are based on preliminary assessments at the time of the issuance of the preliminary HIPC Initiative document; these are subject to change. Assistance levels for Ethiopia and Guinea-Bissau were based on the original framework and applied at the completion point; for Nicaragua, Tanzania, Guinea, and Honduras, targets are based on the enhanced framework and assistance levels are at the decision point.