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BRIEF FOR MR. CLAUSEN - EASTERN AFRICA REGION: Ethiopia, Kenya, Sudan, Tanzania, Zaire

(2)

ETHIOPIA

COUNTRY PROFILE

BASIC DATA

Population	31.0 mln.
Total Growth Rate	2.5%
Urban Growth Rate	7.3%
Age Structure	
0-14	45.0%
15-64	52.3%
Adult Literacy	15.0%
GNP Total (1979)	US$ 3.9 bln.
Per Capita	US$ 130
Average Nat'l Savings Rate (FY78-80)	2.9%
Investment/GDP (FY78-80)	8.1%
External Debt (1980) 1/	US$ 670 mln.
Debt Service Ratio (1980) 1/	5.6%
of which Bank share	33.0%

	Lending			
	FY74-78		FY79-83 2/	
	$ Million	No. of Operations	$ Million	No. of Operations
Total	231.9	11	478	11
Bank/IDA				
Bank	-	-	-	-
IDA	231.9	11	478	11
% of Lending				
Agriculture	46%		50%	
Transportation	28%		16%	
Urbanization	-		5%	
Water Supply	-		-	
Communication	16%		-	
Energy			12%	
IDF			10%	
Industry & Mining	-		-	
Population	-		-	
Education	10%		7%	
Tech. Assistance				
Non-Project				

1/ Total outstanding and disbursed.
2/ No lending took place in FY's 79 and 80 because of the compensation issue. The program for FY81-83 is indicative only.

ETHIOPIA

Political Background

1. The internal political situation appears fairly stable. Diverging views persist between radical Marxists favoring close Moscow Alliance and those pursuing more moderate and pragmatic socio-economic policies internally and an external policy of least foreign dependence. The Head of State, Chairman Mengistu, moderates expertly between the prevailing views, though basically he appears to favor the more moderate line.

2. Ethiopia appears to have reached an understanding with Sudan over the situation in Eritrea but relations with Somalia remain strained over the situation in the Ogaden. Kenya has joined Ethiopia in warning Somalia from further intrusions into the Ogaden.

3. The extent of Soviet influence will depend mainly on Ethiopia's military needs, and may thus be expected to wax and wane in accordance with the exigencies of the regional conflicts. Ethiopia has a very old tradition of independence and national pride, the maintenance of which can be expected to be given much higher priority than any particular ideology of the moment. Soviet Bloc economic assistance appears to be forthcoming at a slower pace, and in smaller magnitudes, than the Ethiopians had expected. The recent movement toward settlement of compensation issues arising out of nationalization was probably influenced by this, and could herald the beginning of a change in the direction of Ethiopia's international economic relations.

Economic Structure and Development Strategy

4. From FY1973/74 to 1977/78, GDP grew at less than 0.5 percent per annum in real terms. This low growth rate reflected security problems, and the uncertainties, dislocations and resistance which accompanied the economic reforms, as well as the ensuing difficulties in internal marketing and distribution. Production was also constrained by shortages of agricultural raw materials and spare parts, machinery breakdowns, high managerial turnover, labor disputes and negligible new investment. Construction activity declined. Inflation was rampant. Export earnings from coffee were maintained but the value of other exports declined. Imports, on the other hand, grew rapidly. The resulting deterioration in the resource balance was financed up to and including 1976/77 by external assistance, and afterwards largely out of foreign exchange reserves.

5. Against this background, in September 1978, the Government introduced the first "economic campaign" with the objectives of: (i) reducing the current food shortages by intensifying efforts in the organizations dealing with the peasant sector, and by doubling the state farm area; (ii) helping drought-affected highland areas by strengthening afforestation, rehabilitation and resettlement programs; (iii) eliminating current shortages of consumer items and certain construction materials; (iv) improving the efficiency of government agencies and businesses; and (v) increasing foreign exchange availability by promoting exports. Production targets for each of the key sectors were to be achieved partly by the reallocation of resources, and partly by improved discipline and efficiency in the organizations concerned. The economic campaign gave priority to the productive sectors, and tried to im-

prove discipline in public sector organizations. This first campaign ran for one year, ending in June 1979. A second campaign, covering the fiscal year 1979/80, followed. The Government now intends to introduce such campaigns or action programs each year, as part of an evolution towards more comprehensive multi-year planning.

6. During 1978/79, a significant revival took place. GDP is provisionally estimated to have grown by 5.2 percent in real terms, the value of merchandise exports and imports rose and improved project implementation contributed to a substantial rise in external loan disbursements and in project related capital transfers. Hence, the fall in foreign exchange reserves of about US$45 million during the fiscal year was less than the previous year (US$126 million). Total net reserves, at about US$206 million in April 1980, were sufficient to finance about four months' imports at the 1979 rate. The IMF has made Trust Fund loans and also provided assistance under the Compensatory Financing Facility (CFF). At end January 1981, Ethiopia's net borrowings under the Trust Fund had reached about US$32.7 million equivalent and drawings under the CFF stood at about US$45 million. In February 1981, an IMF mission reviewed a government request for a standby arrangement and also a proposal for further drawings under the CFF. The standby is scheduled to be presented to the IMF Executive Directors in May 1981.

7. Preliminary assessments of the 1979/80 grain harvest indicate an improvement over previous years. However, drought struck once again in Ethiopia in 1980 affecting both the northern highlands and the southern provinces. The Relief and Rehabilitation Commission estimated that some five million people were affected and that drought-related requirements included over 280,000 tons of food.

The Adjustment Problem

8. It will not be easy to sustain the revival evident during 1979 given the prospects for a deterioration in the terms of trade, with lower prices for coffee - the principal export - and higher petroleum prices. Secondly, although the volume of coffee exports has continued to rise, and hides and skins prices have remained favorable, other exports have not shown signs of recovery. Thirdly, external assistance commitments have probably not risen sufficiently in recent years to sustain higher import levels. These factors indicate that foreign exchange will become increasingly constrained. The revival in domestic production will also become increasingly subject to capacity constraints, due to the low level of investment during the past few years. The Government, however, has planned for larger production increases for the fiscal year 1979/80, especially in the construction sector, under its second economic campaign. The targets which were set for the various sectors imply a GDP growth rate of 7.3 percent in real terms, which is considerably higher than the 4 percent real GDP growth projected in the latest Bank economic report issued in April 1980.

9. Most of the obvious short-term measures to improve economic performance, such as utilization of excess capacity, plowing additional land, improvement of labor discipline, institution of extra work shifts have been included in the first two economic campaigns. The need now is for measures which will have a longer-term payoff but possibly little short-term impact, such as improved

domestic resource mobilization and pricing policies, better planning, and more pre-investment and project preparation activity. However, the first priority must be given to expanding production capacity in agriculture and industry together with improving basic infrastructure.

Bank Assistance

10. In recent years the relations between the Bank and Ethiopia have been dominated by a compensation issue. In early 1975, the Government nationalized enterprises in which it deemed government ownership or control to be in the public interest. When doing so, the Government stated that fair compensation would be paid to former owners. To implement this policy, it enacted legislation to regulate compensation and established a Compensation Commission in late 1975/ early 1976 to receive and review claims, and to negotiate and reach agreement with former owners on the amount of compensation and the manner of payment. Much time passed, however, with little evidence of progress. In April 1978, we informed the Government that we would not present another lending proposal for Ethiopia to the Board until the process for resolving the compensation issue had been initiated.

11. A beginning was made in late 1980 when the Compensation Commission invited four claimants to Addis Ababa to negotiate, and an agreement was reached with one of them. On the strength of this, we presented a new lending proposal to the Board in late December 1980 and subsequently began to reactivate the Ethiopia lending program. We have stressed to the Government, however, that we are proceeding with new operational work in good faith and that progress on the compensation issue must continue.

12. We plan to assist in particular those productive and infrastructure projects which the Government considers to have high priority, particularly those projects which will promote exports and assist the rural and urban poor. At the same time, we are trying to renew our policy dialogue which has been severely weakened in the wake of the revolution and as a result of the compensation issue. Discussions would focus on issues such as the need to clarify the methods of socialist management, the role of public sector enterprises, the investment program, resource mobilization and the need for an external sector strategy.

13. We are proceeding with the projects included in the first two years of the lending program (FY1981 and 1982) totalling $272 million or $4.40 per capita per annum. The program for the later years are indicative at this time and will depend on progress on the compensation issue as well as on economic performance and project preparation. With a per capita income of $130 in 1979, Ethiopia remains one of the poorest of the poor. Its weak balance of payments position, together with its poverty, suggests the need for very substantial resource transfers. Ethiopia's ratio of debt service to export earnings (8.1 percent in 1978/79) has fortunately remained low, largely because of the relatively low level of external loan commitments in recent years, and because of the tendency of some donors to shift to support on grant terms. Ethiopia has not been considered creditworthy for Bank loans since early 1970s, and in view of its poverty and weak balance of payments position is not likely to become creditworthy for some time to come. The most recent Consultative Group meeting on Ethiopia was convened in July 1973, prior to the revolution. Since then, the Consultative Group has been dormant.

14. The last economic mission visited Ethiopia in November/December 1978. Further economic work demands high priority and, in agreement with the Government, we will mount an economic mission in April 1981. In our economic and sector work program, we plan to emphasize the agricultural and industrial sectors, although the Government will likely remain sensitive to such work until its policies and strategies in these sectors have been clearly defined, and until our dialogue with the Government on such policies has strengthened.

KENYA

COUNTRY PROFILE

BASIC DATA

Population	15.3 mln.
Total Growth Rate	3.9 %
Urban Growth Rate	6.9 %
Age Structure	
0-14	49.5%
15-64	48.0%
Adult Literacy	40.0%
GNP Total	US$ 5,850 mln.
Per Capita	US$ 380
Average Nat'l Savings Rate (74-85)	15.7%
Investment/GDP (78-85)	21.7%
External Debt (1980)	US$ 2,181.6 mln.
Debt Service Ratio (1980)	12.6%
of which Bank share (1980)	15.2%

	Lending			
	FY74-78		FY79-83	
	$ Million	No. of Operations	$ Million	No. of Operations
Total	560.0	25	1086.7	28
Bank/IDA				
Bank/TW	403.0	21 1/	630.2	14 1/
IDA	157.0	12 1/	456.5	16 1/
% of Lending				
Agriculture	31.5%		35.5%	
Transportation	10.2%		16.4%	
Urbanization	11.7%		3.7%	
Water Supply	11.6%		1.8%	
Communication	-		1.8%	
Energy	10.1%		9.7%	
IDF	6.2%		6.4%	
Industry & Mining	1.8%		3.1%	
Population	2.1%		3.7%	
Education	5.9%		3.7%	
Tech. Assistance	-		0.4%	
Non-Project	5.4%		13.8%	
Others	3.5%		-	

1/ Includes blend operations.

KENYA

Political Background

1. Since Independence in 1963, Kenya has experienced remarkable continuity in political leadership, culminating in the smooth transfer of power following President Kenyatta's death in 1978. In light of the peaceful national election held in November 1979 and the far-reaching government reshuffle in June 1980, it would seem, at least on the surface, that President Moi and his associates are for the time being in control of the political, bureaucratic and military foci of power. But, in spite of the apparent control of the President, the current political situation in Kenya is unsettled, largely as the result of historical tribal conflicts which, while suppressed during President Kenyatta's rule, appear to be taking a more open and concrete shape.

2. The ongoing power struggle has generated some political nervousness. This was demonstrated in the Cabinet's rescinding of national price increases for a number of key consumer commodities in early 1980, and the confrontations with students of the University of Nairobi. Also, there is a lack of internal cohesion within the Government, and this is inevitably hindering efforts to improve the country's economic management and planning capabilities. An important socio-political problem in Kenya, and one that aggravates every other, is the pervasiveness of the corruption that developed during President Kenyatta's regime. Despite his continuous public campaign against corruption, President Moi has rejected the idea of appointing an Ombudsman with broad investigative power.

Economic Structure and Development Strategy

3. Although Kenya has made substantial economic progress since Independence, it remains a poor country, with an average GNP per capita in 1979 of US$ 380. Agriculture accounts for about one-third of GDP and more than one-half of export earnings, and remains the principal source of income in the rural areas where over 80 percent of the population live and work. The most fundamental problems Kenya faces are related to the rapid growth rate of population, currently estimated by the Government to be 3.9 percent per annum, which is among the highest in the world. This is resulting in mounting pressure on Kenya's limited arable land and food resources, inadequate employment opportunities to absorb the rising numbers of new entrants to the labor force, especially in urban areas, and increasing public expenditure requirements for basic needs. These pressures will almost certainly have a negative impact on the incidence of poverty and the pattern of income distribution. Although recent studies indicate that the pattern of income distribution in Kenya is better than previously thought, it still leaves about one quarter of the population - especially pastoralists, the landless and those living in marginal areas - below the absolute poverty line.

3. Kenya's development strategy has emphasized the promotion of economic growth through both small-holder and large-scale farming, and development of modern industries through incentives for private, including foreign, investment. The Kenyan development model can be characterized as "mixed", in the sense that it incorporates a diversity of organizational forms and incentives and combines private enterprise with a significant amount of government participation and guidance. Kenya is presently in the middle of its Fourth Development Plan, covering the years 1979-83. The Plan's basic objective is to restore growth to the levels that prevailed before 1974, while alleviating poverty through creation of income earning opportunities and the provision of social services. Particular emphasis is given to (i) the roles of agricultural growth and rural reform in poverty alleviation, (ii) the need to change the major thrust of industrial policy from import substitution to export promotion and (iii) the urgency of promoting family planning programs. In implementing these policy changes, greater importance than in the past is given to the use of market mechanisms and pricing policies, with a somewhat more limited role for Government in terms of direct participation and intervention. The Plan correctly identified the key problems that Kenya faces and sets forth a development strategy appropriate to their solution.

The Adjustment Problem

4. Kenya was able to withstand the initial pressures generated by the increases in oil prices during the mid-1970's, due to the high level of external reserves accumulated in earlier years, and an increased inflow of capital, especially from private sources. However, the balance of payments situation soon deteriorated, with slow export growth and a worsening terms of trade. The Government reacted by introducing fiscal and monetary measures to restrain both public and private consumption and channel investments to areas of immediate productive potential. These measures, together with the general world recession, slowed down Kenya's economic growth rate from an average of 6.6 percent per annum over the previous decade, to 3.7 percent in 1974 and only 1.2 percent in 1975. Although a temporary respite was provided by the coffee boom in 1976 and 1977, the situation has once again deteriorated over the past two years. Despite import restraint, the cost of imported goods and non-factor services is estimated to have risen by 25 percent in 1980, reflecting the continued sharp increases in petroleum prices and the impact of poor rains and inappropriate agricultural policies on food import requirements. As a result, the resource gap rose by more than 50 percent. Per capita incomes have fallen in both 1979 and 1980.

5. Within the framework of the First Structural Adjustment Credit, the Government has had to reassess the targets of the Fourth Plan and introduce a revised short-run economic program. It is also implementing the first steps of a trade and industry policy liberalization program as well as an upward revision of the interest rate structure. Other measures under consideration include a reduction and rationalisation of the level of protection and increased monetary incentives for export-oriented industries. However, movement on more fundamental issues - such as the exchange rate, agricultural pricing, parastatal efficiency and land use policy - has been slow. There is also an urgent need to review the tax system to reduce tax evasion and widen the limited and undiversified tax base.

6. Even with major policy changes, our projections indicate that Kenya's balance of payments situation will remain difficult for the foreseeable future. Very large external resources will be needed to support a very modest increase in per capita GDP of less than one percent per annum.

Bank Assistance

7. To date, Kenya has received 35 Bank loans, 32 IDA credits and 6 IFC investments. It also benefitted from 10 East Africa Community operations. In total, this represents a comparatively large volume of Bank Group lending, justified by Kenya's good performance and long-term creditworthiness. The Government has been responsive to Bank policy advice. We believe that this is still the case and therefore are proposing further increases in the program over the next five years.

8. Kenya's total public debt (disbursed and undisbursed) reached $3.5 billion at the end of 1980, including military debt and a notional 50% share of the debt of the East African Community Corporations. The current debt service ratio is 12.6%. Based on reasonable assumptions about the terms on which Kenya can obtain the necessary external financing, the debt service ratio is expected to rise to 19% by 1985 and to gradually decline thereafter, reaching 15% by 1990. Payments on public debt have accounted for a low and constant share of GDP (2%) in recent years but are projected to reach 6% in 1985 and decline slowly thereafter. Debt service payments to the Bank accounted for 14.5% of total debt service payments in 1980; the IDA share was 0.7%. The Bank's share of total debt service payments is forecast to rise to 15% by 1985 and to 19.5% by 1990; while IDA's share will be 1% in 1985 and 1.5% in 1990. The IBRD holds 18.5% of Kenya's debt outstanding and disbursed at the end of 1980; this ratio will rise to 21% in 1985 and is projected to remain relatively constant at 21% from 1986-1990. IDA is presently holding 11% of Kenya's public debt, but this share is forecast to increase to 15.5% in 1985 and 18% in 1990. The level of Bank exposure implied in the approved lending program, $922 million for FY82-86, must be kept under careful review since it is based on assumptions of export performance and other economic factors which may not materialise. If performance does not live up to expectation the volume of Bank lending will have to be reconsidered. To some extent, however, the expected rise in Bank exposure is due largely to anticipated repayments of loans with short-term maturities, and a gradual switch by other donors from loans to straight grants (including conversions of some loans to grants).

9. Although our lending to Kenya has been widely distributed among most of the sectors in which the Bank Group has an operational capacity, particular emphasis has been given to agriculture (33 percent of all commitments to date), transport (21 percent) and energy (10 percent). To date, about 47 percent of total commitments to Kenya, has been disbursed. Overall, project implementation performance has been satisfactory. The Bank Group has also supported Kenya's efforts at policy reform through a program loan of US$ 30 million in 1974/75 and a structural adjustment credit of US$ 55 million in 1979/80. It is expected that the focus of our lending operations in the coming years will continue to be in support of the Government's efforts to maintain a reasonable rate of growth while restructuring the economy.

To this end we intend to step up the level of structural adjustment lending, in close coordination with the IMF and bilateral donors. The IMF and the Bank have worked closely in preparing for the First Structural Adjustment Credit and the IMF Stand-by Agreement by exchanging information and views, as well as draft documents on a continuous basis. IMF missions to Kenya have also exchanged briefings with our Resident Representative in Nairobi.

10. Our recent economic and sector work on Kenya has primarily focussed on the adjustments which Kenya must make to deal with the changed international economic situation. However, the upcoming Basic Economic Report is expected to provide a more comprehensive discussion of important development issues, including income distribution, population growth, and appropriate long-term agricultural and industrial policies. Our future economic and sector work will continue to look at key structural problems in the economy to improve the analytical basis for our lending. Special attention is to be given to agriculture, both to improve project effectiveness and to provide the background for a possible shift in the focus of our structural adjustment lending towards that sector. We also hope to make greater use of Kenya's own growing and improving research institutions in the coming years.

11. The last meeting of the Consultative Group was held in May 1979, and reviewed Kenya's current economic situation and its plans for the Fourth Development Plan (1979-83). The meeting was successful in enabling the Government to exchange views with the donors and to make the case for increased aid to Kenya, as well as for a shift of resources to quick disbursing assistance. The next meeting is tentatively scheduled for June 1981.

SUDAN

COUNTRY PROFILE

BASIC DATA

Population		18.5 mln.
Total Growth Rate		2.9 %
Urban Growth Rate		6.8%
Age Structure		
0-14		44.1%
15-64		53.1%
Adult Literacy		20.0%
GNP Total (1979-80)	US$	4.9 bln. 1/
Per Capita	US$	265 1/
Average Nat'l Savings Rate (74-85)		8%
Investment/GDP (78-85)		15%
External Debt (1979) 2/	US$	2.2 bln.
Debt Service Ratio (FY79) 3/		18.0%
of which Bank share (FY79)		1.6%

	Lending			
	FY74-78		FY79-83	
	$ Million	No. of Operations	$ Million	No. of Operations
Total	252.7	14	531	14
Bank/IDA				
Bank/TW	32	2 4/	-	-
IDA	220.7	14 4/	531	14

% of Lending	FY74-78	FY79-83
Agriculture	45%	46%
Transportation	37%	20%
Urbanization	-	-
Water Supply	-	-
Communication	-	-
Energy	9%	21%
IDF	3%	-
Industry & Mining	-	-
Population	-	-
Education	4%	-
Tech. Assistance	2%	1%
Non-Project	-	12%

1/ At parallel exchange rate of US$1.25=LSd
2/ Disbursed only
3/ Excludes repayment of accumulated arrears; based on amounts actually paid. On basis of amounts due ratio is about 35%.
4/ Includes blend operations.

SUDAN

Political Background

1. Despite political tensions, presently aggravated by the economic crisis, the single party system has continued to function, notwithstanding a number of abortive coup attempts. Its survival is largely due to the charismatic leadership of President Nimeiry who succeeds in keeping potential opposition in check inter alia through appointing prominent personalities, representative of existing factions, to key position, thus maintaining an adequate political balance, and through periodic cabinet reshuffles preventing the evolution of individual power bases.

2. Historically, Sudan and Egypt are closely linked and more recently Sudan has developed close relations, and a concomitant degree of economic dependence, with Saudi Arabia and the Gulf states. Sudan strongly favors a unified Arab strategy for a final solution of the Middle East conflict and Egypt's independent stand has strained relations, particularly after Egypt disclosed tentative plans for a scheme to divert Nile waters to Israel. Relations with neighboring Ethiopia became strained in the course of Ethiopia's Marxist revolution and its consequent external realignment. Sudan's role in the Eritrean secessionist conflict became a particularly sensitive issue, but relations have improved considerably and the two heads of states recently exchanged visits.

Economic Structure and Development Strategy

3. Sudan, with an area of 2.5 million square kilometers, is the largest country in Africa. Much of the country is unoccupied or very sparsely populated and there is relatively little population pressure on the land. Although a large part of the country is desert or semi-desert, the Sudan nevertheless has great untapped potential for agricultural development. About two-thirds of the total land area is suitable for crop or pastoral production, but only a small fraction of this land is under intensive use. The economy is heavily dependent on exports of cotton, the major commodity produced on irrigated land, and on groundnuts, sesame and gum arabic. The manufacturing sector is relatively small and, apart from the processing of such agricultural commodities as cotton, oil seeds and sugar, is limited to the production of consumer goods and building materials. A development of potential significance to Sudan's prospects is the discovery of oil reserves in the southwestern part of the country. Reserves proven to date are not large enough for export production; however, they are large enough to help satisfy part of the country's domestic need and a project to meet this objective is now being considered. The public sector embraces all modern irrigation facilities, the railways, virtually all power and water supply and a significant proportion of industry, commerce and finance. Although some industrial enterprises are being returned to the private sector, about half of the GDP is still generated within the public sector.

4. Sudan is in the midst of a severe economic crisis, the origins of which lie in an ambitious public investment program that began in the early 1970's. Over-commitment, combined with adverse developments in world markets, a decline in cotton production and inadequate domestic resource mobilization, led to sharply rising government deficits. Credit expansion created inflationary pressures and contributed to serious trade deficits. As a result, Sudan now has gross reserves adequate for only a few days of imports. Before the rescheduling of public debt from official sources that took place under the auspices of the Paris Club in November 1979, Sudan had somewhat over US$ 1.0 billion arrears on foreign debt service payments or well over a year of export earnings. About US$ 350 million was rescheduled under the Paris Club agreement; rescheduling of the commercial debt is now in process. The debt service ratio will exceed 40 percent of export earnings this year unless the country completes the rescheduling of debts with commercial and bilateral creditors that began last fall in London and Paris.

The Adjustment Problem

5. The current national economic crisis has forced the Government to rethink its strategy, focusing on the key short-term objective to restore economic equilibrium, particularly in the external and public sectors. Shortages of both domestic and international resources are such that expenditures need to be extremely selective, focussing essentially on investments yielding quick returns in improving the external balance. Consequently the emphasis must be on revitalization of the export sector, essentially cotton, through rehabilitation and maintenance of existing capacity, most of which is severely underutilized.

6. The Government has introduced measures aimed at economic stabilization, including substantial effective devaluation, revenue, and expenditure constraint measures. The Government also seeks to reduce its deficit financing to more manageable levels. Between 1971 and 1979, the deficit grew in nominal terms by about 40 percent per year, compared to a nominal GDP growth of about 17 percent, leading to a deficit now equal to 7 percent of GDP. Successful pursuit of this objective will aid in attaining another key objective - reducing the domestic rate of inflation, now running about 25 percent per year.

7. In June, 1978, the Government and the IMF reached agreement on elements of a stabilization program and the Fund board approved a standby facility and a First Credit Tranche drawing, totaling 51 million SDRs. In May, 1979, agreement was reached on a set of new policy actions by Government, entaling sharp restrictions on government borrowing, in order to obtain access to a three-year Extended Fund Facility for SDR 200 million. The Government, with full support from the Bank, scaled down its investment plans substantially from those in the Six-year Plan (1977/78-1982/83). The revised Three-year Public Investment Program (1978/79-1980/81) concentrates almost exclusively on the completion of on-going projects and on new projects that promise quick foreign exchange benefits. In late 1980, the IMF approved an increased quota for Sudan and also a second year program under the EFF.

Bank Assistance

8. World Bank Group commitments to Sudan to date total US$ 722.9 million. Of this, US$ 32.9 million are IFC commitments. There have been eight loans and 25 credits for a total of 29 projects. Sudan has not been creditworthy for Bank loans since the late 1960s; although two Third Window loans have been made, the last Bank loan was approved in 1968. The country is not likely to become creditworthy in the near future, unless it becomes a net oil exporter, which is not suggested by the scale of oil reserves established up to the present time. Nineteen projects are under implementation as well as one technical assistance project, funded by UNDP and executed by the Bank. About 45 percent of the total Bank/IDA lending has gone into agricultural development. Projects in other sectors include: three power projects, two education projects, two highway projects, a domestic aviation project, four railway projects, a port project, a technical assistance credit and two credits to the Industrial Bank of Sudan.

9. Physical progress in implementing development projects in Sudan has been poor, and is becoming worse as a result of the economic crisis. Many projects have difficulty in getting key materials such as cement, fuel, timber, of which there are periodic shortages. Belated delivery of equipment and supplies due to transportation difficulties also affects most projects. The continuing drain of skilled manpower from Sudan to neighboring countries, where job opportunities are better, takes its toll on effective preparation and implementation of projects.

10. During the past several years the Bank Group has been involved in an intensive dialogue with Government on its development strategy, investment program, economic policies and institutional reforms. As a consequence IDA has supported the Government's Agricultural Rehabilitation Program through a program type credit for agricultural rehabilitation and credits for rehabilitation the New Halfa, Blue Nile and White Nile irrigation projects. These credits are aimed at quickly restoring productive capacity held idle by the lack of spare parts and deferred maintenance. Major conditions involve changes in producer incentives particularly with regard to pricing and cost recovery and reorganization of the agricultural parastatal organizations. For the near term this emphasis remains the centerpiece of our assistance strategy which also finds the support of the members of the Consultative Group.

11. In addition, Bank Group lending will continue to emphasize agricultural and infrastructural investments such as the rehabilitation and intensification of existing irrigation schemes and alleviation of key infrastructure bottlenecks. The emphasis in Bank Group operations will be in support of those activities that contribute directly to the rehabilitation of the economy, in particular those that help increase exports and expand government revenues. Economic and sector work will emphasize the reforms necessary to provide incentives, improve debt management and facilitate co-financing and aid coordination through comprehensive reporting to the

Consultative Group for the Sudan. There have been six meetings of the Consultative Group for Sudan, the last held in Paris in April, 1980. Delegations from 10 countries and 11 multilateral institutions attended. There were statements by the Bank, the Fund, Government representatives and discussions concerning the current state of the economy and future prospects; the agriculture sector and technical assistance needs in the training field. Another meeting of the Consultative Group is tentatively scheduled for late 1981.

TANZANIA

COUNTRY PROFILE

BASIC DATA

Population	17.4 mln.
Total Growth Rate	3.4 %
Urban Growth Rate	8.9 %
Age Structure	
0-14	45.7 %
15-64	51.2 %
Adult Literacy	66 %

GNP Total	US$ 4,700 mln.
Per Capita	US$ 270
Average Nat'l Savings Rate (74-85)	10.9 %
Investment/GDP (78-85)	18.9 %

External Debt (1979)	US$ 1,360 mln.
Debt Service Ratio (1979)	11.8 % (provisional)
of which Bank share (1979)	32.2 %

	Lending			
	FY 74-78		FY 79-83	
	$ Million	No. of Operations	$ Million	No. of Operations
Total	460.7	30	602.0	30
Bank/IDA				
Bank	210.0	12	66.0	3
IDA	250.7	18	536.0	27
% of Lending				
Agriculture	40 %		20 %	
Transportation	5 %		9 %	
Urbanization	4 %		5 %	
Water Supply	3 %		4 %	
Communication	-		4 %	
Energy	8 %		12 %	
IDF	9 %		13 %	
Industry & Mining	18 %		10 %	
Population	-		-	
Education	2 %		6 %	
Tech. Assistance	1 %		2 %	
Non-Project	10 %		15 %	

4/14/81

TANZANIA

Political Background

1. Tanzania has experienced remarkable continuity and stability in political structure, leadership, and basic objectives since Independence. 1/ In the Arusha Declaration of 1967 and subsequent policy statements, the Government's primary objectives of socialism and self-reliance have been elaborated in considerable detail. In developing his concept of African socialism, President Nyere has stressed the themes of equity and participation, urging a broader distribution of property, government services, and income as well as the involvement of all income groups, regions, and both rural and urban areas in the development process. To accomplish these goals, the Arusha Declaration emphasized that the State should play the leading role, especially in the reform and creation of appropriate institutions. To this end, the Government has implemented a series of major policy initiatives over the past decade: the nationalization of large-scale industry, commerce and finance; the creation of numerous parastatal bodies; the formation of ujamaa (cooperative) villages; the decentralization of government (1972); and, the mass campaign of villagization (1974-76).

2. The locus of political power in Tanzania lies within the Chama Cha Mapinduzi (CCM) Party, which was granted political supremacy by the 1977 Constitution. President Nyerere is president of the CCM, and the Party's control structure is closely interwoven with that of the Government. The role of the Party in policy formulation seems to have increased in recent years, and most major policy initiatives now originate or are at least approved by the party hierarchy. This has resulted in the development of a complicated multi-layered decision making process, with, in many cases, only limited implementation functions delegated to the civil service. Partly as a result of this, insufficient attention has often been paid to technical considerations in policy formulation.

3. The latest quinquennial elections for Parliament and President were held in October 1980. Although President Nyerere was unopposed and won a "yes" vote of more than 95 percent, voter dissatisfaction was registered by the defeat of more than 50 percent of the incumbent Members of Parliament. The new Government has a number of new Ministers and Secretaries, including a new Prime Minister, Cleopa Msuya but there were no changes in the economic ministries. Shortly after the new Government was installed, an anti-corruption campaign was begun which resulted in the removal of a number of senior government officials. Combined with the continuation of a general freeze on civil service salaries which has been in effect since 1975, the campaign has led to a serious deterioration in the already low morale of the civil service.

1/ Tanganyika gained Independence in 1961 and Zanzibar in 1963. The two merged to form Tanzania in 1964.

Economic Structure and Development Strategy

4. Tanzania is one of the 30 least developed countries in the world with a per capita income in 1979 of US$ 271. The economy is still heavily dependent on agriculture which employs over 80 percent of the labor force and produces approximately 50 percent of GDP and 80 percent of export earnings. The industrial sector is still small, contributing less than 10 percent of GDP. The large and rapidly growing service sector produces about 40 percent of GDP. With a population of 17.4 million and a land area of 945,000 square kilometers, Tanzania's population density is low, although a few areas are considered over-populated. Population growth is estimated at 3.4 percent per annum, with both fertility and mortality at relatively high levels.

5. Despite the major institutional changes from Independence to the mid-1970's, Tanzania managed to achieve significant improvements in the social sectors. The enrollment rate in primary schools increased by more than 50 percent, life expectancy rose by almost five years, and access to safe water improved in both rural and urban areas. There was also satisfactory progress on the general macro-economic indicators: real GDP grew by 4.4 percent per annum from 1966 to 1973, and the gross investment rate rose to above 20 percent. But this economic record was blotted somewhat by the relatively slow growth of the productive sectors in the economy particularly agriculture and the poor rate of return on new investment. As regards the objective of self-reliance, although Tanzania made rapid progress towards "citizenization" of the economy, large gaps in manpower requirements remained. And the dependence on foreign aid to finance both domestic investment and the widening balance of payments gap increased.

The Adjustment Problem

6. Since the mid-1970's the Tanzanian economy has come under severe strain: (i) GDP per capita in real terms is estimated to have risen by only 0.7 percent per annum since 1973; (ii) despite severe import restraint and the availability of substantial amounts of foreign assistance, the balance of payments situation has become critical, with net external reserves having fallen as low as minus US$ 286 million by the end of 1980; and (iii) the budget deficit and domestic bank borrowing have risen sharply since 1978/79, resulting in rapid money supply growth and domestic inflation. Undoubtedly, a series of adverse external events - including the oil price rises since 1974, the collapse of the East African Community in early 1977, the war with Uganda in 1978-79, and in 1980, another year of poor rains - have further aggravated the existing problems and made more urgent the need for restructuring the economy. But the underlying weaknesses are of a more long-term nature and related primarily to the structure and performance of the domestic economy. These include declining export volumes (they are now one-third lower than in 1973), disappointing growth in the monetized and productive sectors, and poor maintenance and utilization of existing capital stock. In agriculture, the problems have been compounded by longer-term developments in government strategy. The importance attached to rural development in government pronouncements has not always been fully reflected in the allocation of resources to the agricultural sector or

in policy formulation and implementation. Also, many of the institutional changes in the sector were introduced too rapidly, without careful planning or sufficient recognition that by themselves they could not compensate for inadequate incentives and shortages of skilled manpower and managers.

7. While the seriousness of the economic situation has been apparent for some time, the Government has been slow to respond. Except for further restrictions in imports and public maintenance and operating expenditure, little has been done to compensate for and minimize the adverse consequences of external events. Indeed, in some areas, difficulties have been aggravated, by continuing to expand government involvement and control of the economy without due regard to the limited financial and administrative capacity available.

8. After very protracted negotiations, the IMF approved on September 15, 1980, a Standby Arrangement for Tanzania, which was to provide up to US$ 235 million over the next two years (an additional US$ 20 million was drawn under the Compensatory Financing Facility). However, for a variety of reasons, Tanzania was unable to meet the program's ceilings for external arrears, government borrowing and domestic credit. As a result, drawings were suspended in December 1980. Although the Government has subsequently taken additional revenue measures to improve the fiscal situation, the extent to which the ceilings have been broken is so large that it is not considered possible to restore drawing rights under the existing program. The IMF has, therefore, sent a further mission to Dar es Salaam (arriving April 1, 1981) and it is hoped to agree on a broader program for restructuring the economy, to be supported by an extended arrangement with possibly larger resources from the Fund.

9. More basic and comprehensive policy adjustments will be required to see Tanzania through the difficult two to three years ahead and eventually restore balance in the economy. Issues still to be addressed include: formulation of an effective strategy towards agricultural development, with particular emphasis on improving productive efficiency through better incentives, input supplies and research and extension systems; improved organization and operational efficiency of the parastatal sector; greater budgetary provisions for operations and maintenance, especially in agriculture and the supporting processing and transport infrastructure; a re-evaluation of development projects, to ensure that they are of high priority and compatible with the present constraints; and a general improvement in governmental budgetary control and planning capacity. Unless such a program is implemented and supported by additional concessional financing from the international community, Tanzania will find it increasingly difficult to make progress towards its economic and social objectives. The Export Rehabilitation Credit proposed for consideration by the Board in late April 1981 is intended to help Tanzania begin implementation of such a program.

Bank Assistance

10. To date, 47 IDA credits and 19 Bank loans, amounting to US$ 899.3 million, have been approved for Tanzania. In addition, Tanzania has been a beneficiary of 10 loans totalling US$ 244.8 million which were extended for the development of the common services and development bank operated regionally by Tanzania, Kenya and Uganda through their association in the East African Community. However, because of Tanzania's present economic difficulties, all Bank Group commitments since mid-1979 have been on IDA terms. Commitments held by IFC in Tanzania how total US$ 3.2 million (after cancellations).

11. Owing to the very concessional terms on which past aid has been given to Tanzania and the Government's previous reluctance to use higher cost commercial loans and suppliers' credits, the country's overall debt service ratio has historically been less than 10 percent. However, the debt service burden is expected to increase as past loans fall due for repayment and new borrowings, including some on commercial terms, are required to meet the widening balance of payments gap. Such borrowings, together with very poor export prospects, could raise the debt service ratio to 15-20 percent during the 1980s.

12. In support of Tanzania's overall development strategy, Bank Group lending operations have assisted a wide spectrum of activities with emphasis on agriculture (30 percent), industry (25 percent), energy (12 percent), transport and communications (11 percent), and education (5 percent). Two program credits/loans totalling US$ 45.0 million have also been provided to Tanzania.

13. At present about one-half of all Bank Group loans and credits remain undisbursed. Although this high proportion is in part due to recent signing of agreements, it also reflects mounting problems in project implementation caused by manpower shortages, frequent and fundamental administrative changes, and critical shortages of essential goods and services. Until the general economic situation improves, the outlook is for continued and sometimes unforeseen delays in project disbursements.

14. With the present foreign exchange crisis, and the need to divert a larger share of resources towards operations and maintenance, the Bank proposes to sharply increase the amount of program and structural adjustment lending in future years, provided the Government is willing and able to implement policy changes designed to restore incentives for production and exports, and reduce the role of the public sector or make it function efficiently. It will also be necessary to carefully review all on-going projects, to stop or cut back projects which place an undue burden on the limited financial and manpower resources available. The present lending program calls for an increase in lending to over US$ 600 million during the five years FY81-85, but with an appropriate response from the Government, a larger program could be justified.

15. The latest country economic memorandum for Tanzania was distributed in January 1981. This, together with our on-going preparation of the proposed export rehabilitation credit, has highlighted the need for more economic and sector work in support of our lending operations and geared to the immediate issues of rehabilitation and restructuring. Over the three years FY81-83, we plan to devote more than 460 manweeks to economic work, with particular emphasis on the agricultural sector.

16. The last Consultative Group for Tanzania (and the only one since the breakup of the EAC) was held in May 1977. We have recently been discussing with the Government the possibility of a further Consultative Group meeting in the near future, to build on the program developed for the Export Rehabilitation Credit and to provide additional resources for the proposed Agricultural Account. The Government has expressed some concern that in the present aid climate, it might be better to wait until a more comprehensive structural adjustment program is in place (perhaps towards the end of 1981) and, at their request, we are presently exploring the various options with the donor community.

ZAIRE

COUNTRY PROFILE

BASIC DATA

Population 1/		26.8 mln.
Total Growth Rate		2.7%
Urban Growth Rate		7.7%
Age Structure		
0-14		45.5%
15-64		52.7%
Adult Literacy		15.0%
GNP Total		6,968 mln.
Per Capita	US$	260
Average Nat'l Savings Rate (78)		19.7%
Investment/GD) (78)		15.3%
External Debt (1979)	US$	4,583.4 mln.
Debt Service Ratio (1979)		26.0%
of which Bank share (1979)		7.4%

	Lending			
	FY 74-78		FY 79-83	
	$ Million	No. of Operations	$ Million	No. of Operations
Total	238.0	10	219.5	15
Bank/IDA				
Bank	100.0	1	-	-
IDA	138.0	9	219.5	15
% of Lending 2/				
Agriculture	14.1%		22.8%	
Transportation	21.8%		33.2%	
Urbanization	-		-	
Water Supply	9.0%		4.6%	
Communication	-		-	
Energy	-		3.2%	
IDF	4.2%		12.9%	
Industry & Mining	42.0%		22.8%	
Population	-		-	
Education	8.8%		-	
Tech. Assistance	-		0.5%	
Non-Project	-		-	

1/ Data refer to any year between 1974 and 1978; most recent data for GNP (and per capita GNP) is for 1979.

2/ Because of rounding the totals may not add up to 100%.

ZAIRE

Political Background

1. Independence gained from Belgium in 1960 was followed by a period of instability and internal strife until the end of 1965, when General Mobutu assumed power. Overall, the internal situation has remained calm since, despite the invasions of Shaba in 1977 and 1978. Externally, Zaire has successfully pursued a policy of good relations with its neighbors including Angola and Zambia. The President has very broad powers including those to pass legislation; he names the members of the Political Bureau of the Mouvement Populaire de la Revolution (MPR), the sole political party. The National Assembly (Legislative Council) is an arm of the MPR, whose members are elected by universal suffrage. The latest Cabinet change (August 1980) brought back Mr. Karl-I-Bond as Prime Minister 1/ and Mr. Sambwa as Governor of the Central Bank. These changes, together with the appointment of Mr. Namwisi as Finance Minister earlier this year, place competent people - who enjoy a good reputation abroad - at the helm of the Zairian economy. The new cabinet is likely to be more amenable to the policies of restraint and liberalization recommended by the IMF than its predecessor. We therefore expect our dialogue with the Government to be more fruitful than in the past.

Economic Structure and Development Strategy

2. Zaire is the third largest country in Africa in terms of area and the fifth largest in terms of population (27 million), but its per capita GNP, at about $260 in 1979, ranks among the lowest in the continent. Although agriculture, commercialized and subsistence, accounts for less than 20 percent of GDP, it provides livelihood to more than three-quarters of the population; main foodcrops are manioc and maize, while coffee and palm oil rank first in commercial crops, followed by cotton. Mining is the foremost economic activity; Zaire is the world's largest producer of cobalt (60 percent of world's production) and industrial diamonds, and the seventh largest producer of copper. The mining and mineral processing industry accounts for about 20 percent of GDP; it has been traditionally the largest source of public revenue and provides about 70 percent of the country's export earnings. Because of its size, topography and virtually land-locked position, Zaire's economy is crucially dependent on the internal transport network of rivers, rail and roads.

3. Following the restoration of political order in 1967, GDP grew by about 7 percent per year in real terms until 1974. Since then, however, Zaire has experienced serious economic difficulties which have brought about a continuous decline in aggregate output. Several factors contributed to the crisis, most notably (i) the deterioration of the terms of trade, in particular the fall in the international price of copper; (ii) heavy external borrowing (totalling more than $2.0 billion in 1973-74 alone) at average terms inconsistent with the country's level of development and for projects with delayed or uncertain economic benefits and (iii) the disruption of economic activity by the nationalization measures of 1973-74. Between 1975

1/ Recently the Prime Minister has offered his resignation.

and 1979, GDP contracted on average by 3.5 percent per year due to the acute shortage of foreign exchange and hence inputs. Inflation fueled by deficit financing ran high and arrears on the repayment of external debts accumulated to about $1.8 billion.

4. Over the past 18 months, the Government has made serious efforts to arrest the contraction of the economy and prepare the conditions for recovery. In March 1979, a stabilization program was adopted, with the support of a standby arrangement with the IMF, the criteria for which have been so far substantially met; some short-term external assistance has been mobilized through several donors' meetings; and the external debt with both private banks and the Paris Club has been rescheduled and the new terms respected. Also a number of measures have been taken to improve economic management. The Zaire currency was devalued in several steps by about 75 percent as compared to end 1978; a three year investment program has been prepared (with some assistance from the Bank); efforts to increase fiscal revenues and to curtail expenditures have brought inflation down from about 100 percent in 1979 to about 47 percent in 1980; a number of institutions, notably the Central Bank, the Ministry of Finances and the Customs office have been strengthened and a Central Pay Directorate created by expatriate technical assistance teams under the aegis of international organizations or bilateral donors; and a number of policy measures have been implemented to increase producer prices and improve the allocation of foreign exchange.

5. On the strength of that experience, the IMF and Zaire have begun to negotiate an EFF in support of a three-year recovery program. It is expected that this EFF will be presented to the Board of the IMF in June 1981. We have cooperated closely with the IMF on Zaire, particularly in the last two years, along traditional institutional lines, with the IMF focusing on short-term policies and their monitoring, and the Bank advising the IMF on structural and sectoral problems of a longer-term nature. With the recent redirection of IMF focus toward supply-oriented policies, our cooperation has increased even more. Zaire's situation is still precarious and will require constant monitoring.

The Adjustment Problem

6. The economy remained in difficulty in 1980 largely because of the unprecedented volume of external debt payments due (more than $400 million, or two-and-a-half times the amount of 1979). The outlook for 1981 is mixed, with huge requirements to rehabilitate infrastructure and productive capacity contrasting with declining prices of mining products, in particular cobalt. This situation and the necessary steps to redress it were reviewed at a Consultative Group meeting in May 1980; the participants agreed to the need for more assistance but insisted on further improvements in Government policies. If the IMF's EFF loan is agreed, the prospects for an extensive debt rescheduling in the Spring of 1981 are good. However, setting

the Zairian economy on the path of recovery would require (i) a further debt rescheduling bringing the service of the debt to a manageable level; (ii) the adoption by the Government of a comprehensive and coherent supply policy package to stimulate the resumption of external confidence; and (iii) substantial financial assistance from the international community to replenish a badly depleted project pipeline and restore capacity utilization. Our work in the next few months will aim at defining the role which the Bank should play in the context of both a supplier of financial and technical assistance and a catalyst of external aid.

Bank Assistance

7. To date, the Bank Group has committed almost $400 million in project aid in Zaire. With the exception of a large Bank loan for an enclave project in the mining sector, all lending has been on IDA terms. This assistance has enabled Zaire to mobilize substantial co-financing, particularly for mining and transport projects. However, it is still at a low level for a country of this size, and a much higher level of commitments would be possible if performance and creditworthiness improves. The creditworthiness of Zaire has been very low in recent years--one of the lowest among developing countries--largely because of the accumulation of vast external debt arrears (US$1.8 billion at end-1979) and low external confidence in the country's Management. In 1980, Zaire's creditworthiness improved as a result of the successful implementation of the stabilization program, supported by the IMF, and the rescheduling agreements concluded with the members of the Paris Club and the syndicated private banks, which have been substantially respected to date. The reopening of private credits is,nevertheless, still slow and will be crucial to the country's recovery. Further changes in institutions and policies--and time--will be needed to restore Zaire's creditworthiness to its pre 1975 level.

8. A close dialogue has been established with the authorities on economic and sector issues and in helping to coordinate external assistance. Project implementation has been uneven, most difficulties stemming from uncertain Government priorities, administrative weaknesses and acute lack of foreign exchange; the best record lies in those sectors where reasonably effective institutions exist, e.g. Transport, Mining, Development Bank. Our current strategy consists of helping to rehabilitate, and develop infrastructure to support recovery of the productive sectors, mining, agriculture, and industry. We consider Transport as the highest priority since it is vital to haul out mining production and to distribute essential inputs and other goods in the interior. We are also giving high priority to agriculture, where self-sufficiency should be restored both to alleviate balance of payment pressures and to generate other activities. Another major objective is the maintenance and development of Gecamines, the country's major mining company and largest single foreign exchange earner. In the medium-term, there is a risk that too severe financial conditions imposed on Gecamines in the framework of stabilization and external debt repayment policies, might damage its capacity and hence constitute a threat to future recovery. We have received a request from the Government to help put together a financing package of $160 million for Gecamines and will soon initiate discussions with the authorities on the conditions at which we could participate in such financing with other co-financiers.

9. Structural adjustment and/or program lending is premature for Zaire. With the external current account balance nearly in equilibrium due to the low level of activity, such lending would be tantamount to providing resources to repay debts. We propose instead to continue to support priority investments in key sectors.

10. We also consider that our lending must be complemented by a high level of carefully focused technical assistance, primarily on macro-economic issues, aid coordination and medium-term planning as in the past, but also on sector strategies and selected institutional problems.

11. Our current lending program for FY82-86 averages four projects and less than $48 million per year, i.e. $1.75 per capita per annum. Because a measure of improvement in economic management has taken place over the past 18 months, we could now consider a modest increase, in line with the still limited absorptive capacity of the country.

12. The Consultative Group for Zaire, which met last in May 1980, has played a useful role as a forum for the exchange of ideas on Zaire's economic situation and prospects and for drawing the attention of both Zaire and the major donors to the priorities for action, e.g., debt rescheduling, agricultural policy, improved economic management, etc. The CG is the only international forum for addressing Zaire's problems and needs in their totality and in an integrated manner. It has proved to be a very useful tool for this purpose.