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THE WORLD BANK

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PUBLIC DISCLOSURE AUTHORIZED

CLAUSEN'S, Tanzania

Vol 3



1775110

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Country Files: Tanzania - Correspondence 03

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SENIOR MANAGEMENTANNUAL MEETING BRIEFName of the Country: TANZANIADate: August 22, 1986

Meeting With: 1) Honorable C. Msuya, Minister of Finance
 2) Mr. G. Rutihinda, Prin. Sec., Ministry of Finance
 3) Mr. C. Nyirabu, Governor, Bank of Tanzania

Population: 21.5 million; (1984) **Estimated Growth Rate:** 3.3% (1980-85)
GNP per capita: \$210 (1984)

	(\$ mil.)		(\$ mil.)
Total Commitments to date:	1,293	FY86: Commitments	90.00
of which:		Disbursements	69.81
27 Bank	361	Amortization	28.37
62 IDA	932	Commitments from	--
Total Undisbursed:	201	Special Facility:	--
Total Lending Program FY87/88	210	Commitments from Special	
(including \$70 mil. SFA)		Joint Financing:	--

<u>Summary Data</u>	<u>Avg. 83-85</u>	<u>86(est)</u>
GDP growth	1.5	3.0
Export growth	-7.4	5.0
Import growth	-5.2%	5.0
Curr. Acct. Def. % GDP	8.4%	15.0
Gross Debt Serv. Ratio	52.0	66.0
Annual Inflation Rate	30.0	20.0

Aid Group Meeting: CG
 Last Meeting: June 1986
 IMF Status as of: August 1986
 (Art. IV; Standby expected
to be in place by September
1986.)

Background:

In October 1985, a new Government was formed under President Ali Hassan Mwinyi. The Government has launched an Economic Recovery Program (ERC) designed to address the country's severe economic problems. The ERC which was presented to the donors at a Consultative Group Meeting for Tanzania in Paris in June, 1986, constitutes a basis for an IMF Stand-by Agreement expected to be in place in early September and for a multisector rehabilitation credit recently appraised by IDA.

Issues for Discussion:

1. Scope and Pace of Policy Reform.
2. Volume and Type of Bank Assistance.
3. KILAMCO Fertilizer Project.

Attachments:

Five-Year Lending Program: FY86-90 (FY86 actual)
 Biographical Information

SENIOR MANAGEMENT

August 22, 1986

1986 ANNUAL MEETINGS BRIEFTANZANIAI. Background

1. Tanzania continues to face a very difficult economic situation, characterized by sluggish growth, high inflation and low productivity. GDP contracted in the years 1981-83; and increased by only 2-3% in 1984 and 1985. With the population growing at over 3% a year, per capita income has continued to fall. Agricultural output grew by 2.3% p.a. over 1980-85 as a result of an expansion in food crop production sufficient to offset the continued fall in the output of export crops. Industrial output fell by 15% p.a. over the same period and capacity utilization in industry is now extremely low. The country's physical and social infrastructure has also suffered. Transport bottlenecks impinge on every sector of the economy and Tanzania's achievements in improving literacy rates and life expectancy are being eroded by the Government's inability to adequately staff, maintain and supply schools, health centers, etc. The balance of payments has remained under severe strain as a result of a steady decline in export receipts and aid flows. The real level of imports in 1985 was 22% lower than in 1978-80 and even this level could be sustained only at the cost of Tanzania not being able to service its debt obligations on time. The debt service ratio is now around 50% of exports on a due basis, arrears have risen to an estimated \$600 million and there have been periodic suspensions of disbursements by aid agencies, including the Bank group.

2. The Government has made several attempts to address the country's economic problems but the magnitude of the policy changes has been inadequate. In recent months, however, and following intensive dialogue with both the IMF and the Bank, a much more promising set of policies has been developed. The focus of the actions taken so far has been on macroeconomic adjustment. Since April 1986, the Tanzania Shilling has been devalued by 58% against the US dollar, and there is an agreement for further adjustment on a regular basis, with a view to achieving an equilibrium exchange rate in 1988. The adjustment has facilitated improvements in agricultural export incentives: producer price increases between 30% and 80% have been announced for the coming season. Fiscal and monetary policies consistent with the Stand-by Program agreed between Tanzania and the IMF, are reflected in the Budget for 1986/87. The Bank intends to support these measures with a proposed Multisector Rehabilitation Credit which was appraised in July/August 1986, and is now being processed for Board presentation early November.

II. Issues for Discussion

Scope and Pace of Policy Reform

3. Management should emphasize the Bank's strong support for the significant and major policy steps recently taken by the Tanzanian authorities in the context of the Government's Economic Recovery Program and the IMF Stand-by Agreement. However, the delegation should be informed that the Bank believes these measures are only the beginning of the required reform program; it is now necessary to broaden the scope and expedite the pace of implementation of the policy reforms, in order to reverse the prolonged deterioration of the Tanzanian economy. In addition to further macroeconomic adjustments the authorities need to develop and implement reforms in the key sectors of agriculture, industry and transport. Institutional improvements including improved aid coordination are also critical. In a number of these areas the Bank has already made specific proposals to the Government, in the context of the proposed Multisector Rehabilitation Credit and the Bank stands ready to provide further support in terms of analytical work and technical assistance. But the Government needs to move expeditiously: a slow adjustment may be politically more acceptable but is unlikely to produce the needed economic recovery.

Volume and Type of Bank Assistance

4. Given Tanzania's severe economic and financial difficulties, the delegation is likely to request the Bank to increase the volume of Bank assistance, particularly in quick-disbursing non-project form. The delegation should be informed that the Bank is prepared to step up its lending program to Tanzania provided the Government is able to develop and implement a sound program of macro and sectoral reforms. The program for FY87 includes a quick disbursing Multisector Rehabilitation Credit for US\$100 (comprising US\$30 million from IDA, and US\$70 million from the Special Facility for Africa). A final determination on the size of this credit will be made at the time of negotiations, taking into account Tanzania's balance of payments and fiscal requirements and, most importantly, the overall strength of their reform program.

KILAMCO Fertilizer Project

5. It is likely that the Tanzanian delegation will wish to follow up on the Minister for Energy and Minerals recent discussions with the Bank's regional management on possible Bank assistance for the proposed KILAMCO Fertilizer Project. IFC is interested in this project and the Bank recognizes that the Government and other potential financiers have put considerable time and effort into developing the project. The Bank still, has questions about the economic viability of the proposed project. We are particularly concerned that the project is likely to require Government's contribution of scarce foreign exchange at a time when the economy is very weak and the highest priorities are for economic rehabilitation. The Bank will, however, be able to comment definitively on the Government's proposal in early-1987 after the technical and economic merits of the project have been examined.

- 3 -

TANZANIA

LENDING PROGRAM
(Million US\$)

<u>FY</u>	<u>Project</u>	<u>Bank</u>	<u>IDA</u>	<u>SFA</u>
86	Roads Rehabilitation		50.0	
	Power Rehabilitation		40.0	
			90.0	
87	Multi-sector Rehabilitation a/ Agricultural Rehabilitation (Cotton)		30.0	70.0
			20.0	
			50.0	
88	Agriculture Research		10.0	
	Industrial Rehabilitation I a/ b/		25.0	
	Multi-sector Rehabilitation II		50.0	
			85.0	
89	Transportation Sector Rehabilitation		20.0	
	Multi-sector Rehabilitation III a/ b/		50.0	
	Agriculture Extension		10.0	
			80.0	
90	Multi-sector Rehabilitation IV a/ b/		50.0	
	Telecommunications Rehabilitation (S)		20.0	
	Education VIII		10.0	
			80.0	

a/ Include related technical assistance measures.

b/ Emphasis expected to be on agricultural sector requirements and policies.

BIOGRAPHICAL INFORMATION

DELEGATION OF TANZANIA

His Excellency Cleopa D. Msuya, Minister of Finance

Mr. Msuya was born in 1931 in Kilimanjaro Region and was educated at Tabora and Makerere College, in Uganda. After 16 years in the civil service (1956-72), he served as Minister of Finance (1972-75) and Minister for Industries (1975-80) before being appointed Prime Minister in November 1980. He was reappointed Minister of Finance in the March, 1983 Cabinet reshuffle. He is very knowledgeable about Bank Group operations.

Mr. Gilman Rutihinda, Principal Secretary, Ministry of Finance

Mr. Rutihinda was appointed Principal Secretary of Finance in April in the major Cabinet shuffle that was precipitated upon the death of the then Prime Minister Sokoine. Mr. Rutihinda was previously Principal Secretary of Foreign Affairs from 1981-84 and Principal Secretary for Trade from 1980-81.

Mr. Charles Nyirabu, Governor of the Bank of Tanzania

Born in North Mara and about 42 years of age. Mr. Nyirabu obtained a degree in economics at Makerere University and a Masters Degree from Williams College in Massachusetts (1966). On his return to Tanzania he worked at the Ministry of Development Planning and then moved to the Central Bank as Deputy Governor. He was appointed to his present post in 1974.

(Since the actual delegation has not been determined by the Government, shown are selected biographical sketches of those we expect to attend.)

OFFICE MEMORANDUM

Mr. Clausen

DATE : September 25, 1984

TO : Files

FROM : David A. Dunn, Chief, EAIEA *DA Dunn*

SUBJECT : 1984 Annual Meeting: Mr. Clausen's Meeting with
Tanzanian Delegation

1. President Clausen met with the delegation from the Government of Tanzania on Saturday, September 22, 1984 at 12:30 p.m. Attending from the Government were Minister Msuya, Minister Malima, and Messrs. Rutihinda and Kitomari, from the Executive Director's Office Messrs. Smith and Girukwigomba, and from the Bank President Clausen and Messrs. Stern, Jaycox, Husain, Kraske, Wyss, Dunn and Fennell.
2. President Clausen congratulated the Government on the significant economic reform measures adopted in the June budget. Minister Msuya thanked the President and said that the measures were a part of the Government's process of continuous review of its economic policies. He understood that some observers might think these reforms had been long in coming, but the Government needed to take the political situation into consideration. In any case, the Government recognized the necessity of addressing these issues more vigorously. The Government intended to strengthen its policies further and it hoped that the Bank and other donors would respond. The Minister hoped that his talks with the IMF during the coming week would lead to an agreement and he requested that the Bank chair a Consultative Group meeting soon thereafter. President Clausen said that he hoped that this would happen and noted that it had been a long time since the last meeting for Tanzania. Mr. Stern said the Bank would schedule a meeting as soon as the Government reached an agreement in principle with the IMF. He felt that there was a reservoir of support for Tanzania and that a meeting in such circumstances would bring positive results. Mr. Jaycox confirmed that Bank staff would be ready to have a meeting in December or January.
3. President Clausen invited Minister Msuya to say how the IMF talks were going. The Minister replied that detailed talks would begin only on Monday, but that there was already general agreement about the direction of necessary policy decisions. He hoped that the technical talks would lead to an agreement. President Clausen asked if he really thought there would be an agreement and the Minister said he felt confident that there would be.
4. President Clausen invited the Minister to talk about the Bank Group program. The Minister noted that the lending program had suffered from the impasse on policy dialogue and that the project pipeline was depleted. The Government wished to concentrate future activities on critical areas. He requested the Bank to send a "pipeline" mission to Tanzania, if the IMF talks succeeded, to develop a five-year Bank Group

lending program. Mr. Jaycox responded that the Bank welcomed this initiative and would indeed mount such a mission, if there was an IMF agreement. President Clausen asked how the Bank could help the Government in the short-term adjustment process. Mr. Jaycox said that the staff was already beginning to examine ways to help finance appropriate inputs and how to put together a package of high priority financing needs with suitable policy conditions. President Clausen assured the Minister that the Bank Group would continue to look for ways to help the Government - through policy advice, lending, and help with other donors. He urged the Government to keep moving in the same direction as its recent policy measures.

5. Minister Msuya thanked the President for the Bank's initiative in preparing the New Africa Report. President Clausen said that he hoped that Tanzania could provide an early example of implementation of some of the Report's recommendations, for instance, organizing a Consultative Group meeting in support of the Government's adjustment plan. He asked if debt and debt rescheduling would be part of the problem in Tanzania and the Minister replied that it would, and that a Paris Club exercise would have to be part of the policy and financing package.

6. Mr. Stern said that Tanzania could well become a good demonstration case of what needed to be done in the African context. He welcomed the Government's focus on rehabilitation and short-term inputs in the context of a medium-term adjustment program. He hoped that the Government's expressions of support for the Africa Report would be repeated in the Development Committee. This was important in order that donor countries be encouraged to make a special effort to provide the money necessary to carry out the program in the Report. President Clausen supported this statement and said he hoped the Development Committee would give the Bank management a mandate to raise additional resources. Concluding the meeting, he again congratulated the Government on its recent policy initiative and reiterated that the Bank wished to support the Government in every way it could to assist it in continuing the process of policy reform.

C.c.: Messrs. Clausen, Stern, Jaycox, Husain, Kraske, Wyss, Fennell
EAL/EA Tanzania team

DADunn:jm

OFFICE MEMORANDUM

TO: Mr. A.W. Clausen

THROUGH: Mr. Ernest Stern, SVPO *ES*

FROM: Edward V.K. Jaycox, RVP EAN *Ed Jaycox 9/20*

DATE: September 20, 1984

SUBJECT: TANZANIA - Supplement to Annual Meeting Brief

1. I believe that we should be more forthcoming in our response to the Tanzanian request for assistance than we had earlier suggested when we prepared the Annual Meeting brief for you.
2. Since we prepared the Annual Meeting brief
 - The IMF has had fruitful and constructive Article IV consultations with the Tanzanians covering the key policies set out in the 1984/85 budget and the budgetary and balance-of-payment targets which the Government has set for itself. The Fund team refrained at this stage from making specific proposals for exchange rate or price changes. Rather, the IMF team encouraged the Government to consider the actions which would need to be taken to achieve agreed budgetary and balance-of-payment actions and to set time targets for these actions. There will be a meeting with the Managing Director next week to continue the discussion and to consider the outline of an IMF program in general terms. This would then be followed by an IMF mission in the second half of October which would attempt to negotiate a stand-by agreement.
 - The Finance Minister has visited Germany and the Netherlands and received indications of additional support. The German Minister Warnke in particular welcomed the new policies of the Tanzanian Government and agreed to resume bilateral assistance which had been suspended last year because of the Government's unwillingness to address its economic problems.
 - Jochen Kraske has had discussions with the Finance Minister who confirmed that the Government is determined to pursue the reform program initiated with the recent budget. The Minister indicated that there is agreement in principle with the reform proposals of the IMF and the Bank. The Government is determined to conclude successfully negotiations with the IMF.
3. The speed with which reforms will be advanced is the principal question that remains to be resolved. Political acceptance of the Minister's reform program is obviously linked to demonstrable positive effects. Major improvements in the economy will take up to five years because of the structural nature of the problems; nonetheless, gradual

improvements in the supply situation will be essential to gain the necessary support and increase the momentum for reform.

4. As indicated in our Annual Meeting brief, the Minister is going to ask you what the Bank could do to help in the present circumstances. Specifically he will ask

- (i) What the Bank, along with other donors, might be able to do to provide additional assistance needed to increase the supply of agricultural inputs, fertilizers and insecticides in time for the next planting season. In answer to this question, we will inform the Minister that we are prepared to contribute up to \$5 million in quick-disbursing funds out of the recent Dutch funds which we have been given to administer for the procurement of agricultural inputs.

Merely say, we understand the problem and will see what can be done.

When Tanzania could expect further program-type assistance from the Bank.

We have made program assistance conditional on the conclusion of a stand-by agreement with the IMF. I believe that sufficient progress has been made by the Government to confront its economic problems and current discussions with the IMF are sufficiently encouraging for us to be more forthcoming in expressing our support. I believe it is important to encourage the Government to step up the momentum of reforms and to contribute in a constructive and timely manner to the implementation of the reform program. I suggest therefore that you should inform the Minister that we are prepared to send a mission as soon as possible following the Annual Meeting to prepare and appraise a \$50 million Program loan Credit for agricultural rehabilitation in the expectation that negotiations with the IMF will be successful and lead to the conclusion of a stand-by agreement. You should stress that we expect to address a range of sectoral issues in such a credit, to help assure that the rehabilitation program can lead to sustained growth.

No! It is not yet agreed.

(I've told Regier)

JKraske:ad

Tanzanian Delegation (list not confirmed)

Cleopa Msuya - Minister of Finance

Kighoma Malima - Minister of Planning &
Economic Affairs

Gilman Rutihinda - Principal Secretary,
Ministry of Finance

Charles Nyirabu - Gov. of Bank of
Tanzania

From the Bank

Ernie Stern

Kim Jaycox

Jochen Kraske

David Dunn



MANAGEMENT

8/27/84

TANZANIA1984 ANNUAL MEETING BRIEFKEY POINTS

Population: 19.8 million (1982)
GNP per capita: \$260 (1982)
Total Bank/IDA Commitments: \$1,117 million
FY84 - Commitments: \$35 million
Disbursements: \$71.2 million
Amortization: \$17 million
Lending Program: FY85-86 \$100 million

9-22-84
DBackground

1. Following the death (automobile accident) of the then Prime Minister Sokoine in April, 1984, President Nyerere reshuffled the Cabinet naming the former Minister of Foreign Affairs Salim Salim as the new Prime Minister. While the Ministers of Finance and Planning (whom you met during the Annual Meeting last year) remain the same (C. D. Msuya and K. A. Malima, respectively), new Principal Secretaries for these Ministries were named, P.S. of Finance G. Rutihinda and P.S. of Planning Kitomari, both of whom seem to reflect in their discussions with us and the IMF a real change in the Government's attitude and a new seriousness to the Government's intention to improve economic management and reach an accommodation with the Fund and the Bank.

2. In mid-July, the Government announced a number of economic policy reforms in the context of its FY84/85 budget which represent an intensification of a process that was initiated with the adoption of the Structural Adjustment Program (SAP) in July 1982. The most recent measures include a major exchange rate adjustment (35%), the second in two years, an increase in agricultural producer prices of between 40 to 60%, the conversion of about \$150 million equivalent of parastatal overdrafts into long term loans and an initiation of a program to improve the efficiency and productivity of agricultural parastatals. Our preliminary analysis shows that these pricing changes are sufficient to allow agricultural parastatals as a group to break even while resulting in an increase of 5% in real incomes of export crop producers. There is a serious attempt made to make the National Milling Corporation (NMC), the parastatal responsible for grain marketing, financially viable through an increase in the consumer price for maize, decontrol of the price of maize flour (sembe) and a reduction in both its functions and geographical coverage. These measures together should theoretically eliminate the need for budgetary transfers to the parastatals which had amounted to nearly 11% of total recurrent expenditures in FY83. The measures also include politically sensitive actions such as the removal of subsidies on fertilizer and insecticides and the introduction of fees for secondary schools to cover a part of the costs. The budget is thus bold in its attempts to reverse economic policies adopted in pursuit of deeply held political convictions. However, it is at

the same time risky since in our opinion the success of the budget to a large extent in meeting its financial targets will depend on the availability of additional external assistance. Similarly, the supply response in agriculture to the improved incentives is likely to be weak in the absence of an increase in import capability that could finance incentive goods and agricultural inputs.

3. Mr. Rutihinda came to Washington in early June for several days of discussions to present and discuss these measures with the Fund, at which time he took the opportunity to meet with Mr. Stern (see attached memorandum, dated July 5, 1984). While these recent discussions with the Fund have not so far led to an agreement on the magnitude of the adjustments needed, agreement was reached that an IMF Article IV consultation visit would be held in Tanzania in late August with subsequent discussions to be held in Washington during the Annual Meetings to be followed by a full IMF negotiating mission in October. The Government apparently now considers both the advice of the IMF and the Bank and the financial support of our institutions as necessary for a successful economic recovery. There are more hopeful signs than in the recent past that these discussions might lead to an agreement with the IMF, in part simply because there are no other available options for Tanzania.

Issues

Bank Group Lending and IMF Stand-by Program

4. As a result of the recent economic policy reforms (see para. 2), efforts to reach agreement with the IMF and steps taken to lay the groundwork for possible Bank Group program-type assistance have intensified over the last several months. As a result, the Tanzanian delegation can be expected to ask, as they did last year, how the Bank can help them in their discussions with the IMF, how much we will be able to lend for a program-type (sector or rehabilitation) operation, and what are the prospects of increased project lending in the absence of agreement with the Fund.

5. We welcome the recently adopted measures and while we had hoped these measures would have been taken earlier, the important task now is to see them successfully implemented and followed through with further action in the future. The success of the measures taken so far will clearly depend upon Tanzania's willingness and flexibility to take further measures on the exchange rate and fiscal policies, which are the subject of current consultations with the IMF, and its ability to raise additional external assistance. If there is an agreement with the IMF on a stand-by program we should be prepared to make available a program credit of about US\$50 million to finance recurrent inputs in the productive sectors (for example, along the lines of the Agricultural Export Rehabilitation Project of 1981), on the condition that agreement would be reached on continued progress in the following areas:

- (a) progressive adjustments in agricultural producer prices in real terms to a level equal to that in 1980;

- (b) rationalization of the foreign exchange allocation system (e.g. implementation of recently announced foreign exchange retention schemes and separate foreign exchange account for agriculture similar to that under previous Export Rehabilitation Project);
- (c) progressive reform of key parastatals with principal aim of reducing functions, thereby increasing efficiency and reducing operating costs, particularly in the agricultural sector (along the lines of the National Milling Corporation), with cooperatives and private sector assuming the main functions of marketing and input distribution; and
- (d) preparation of a medium-term public expenditure program covering both recurrent and capital expenditures in the framework of realistic assumptions of resource availability.

6. In the event that no agreement materializes with the IMF, we should be prepared to examine additional lending above the current minimum levels for rehabilitation purposes. We feel there are opportunities to support Government efforts concerning parastatal reform in several sectors, and in the agriculture sector increasing multiple channel marketing (similar to what has occurred with the National Milling Corporation and our redesigned Grain Milling and Storage Project). Provided that an acceptable minimum policy framework is already in place and that neither the foreign exchange regime nor fiscal policies would jeopardize implementation, we should be prepared to examine projects to rehabilitate export crop sectors (cotton and tea), transportation (highways and trucking) and energy (electric power, forestry and petroleum).

Aid Coordination

7. It is obvious that if Tanzania's recovery program is to succeed, it will require, in addition to IMF resources, substantial additional support from the donor community. It is equally obvious and clear to the Tanzanians that this will require a major aid mobilization effort. We are prepared to convene a Consultative Group meeting (last one was held in 1977), on short notice and should reassure them of this, but this would of course not be realistic in the absence of a Fund stand-by agreement or at least until the completion of successful negotiations (if before actual Fund Board consideration of a stand-by agreement) on the specific exchange rate and fiscal measures. A vital point in the IMF negotiations will be the extent of the Government's willingness to make further adjustments in the exchange rate and in agricultural producer prices.

Attachments

August 27, 1984

BIOGRAPHICAL INFORMATION

DELEGATION OF TANZANIA

His Excellency Cleopa D. Msuya, Minister of Finance

Mr. Msuya was born in 1931 in Kilimanjaro Region and was educated at Tabora and Makerere College, in Uganda. After 16 years in the civil service (1956-72), he served as Minister of Finance (1972-75) and Minister for Industries (1975-80) before being appointed Prime Minister in November 1980. He was reappointed Minister of Finance in the March, 1983 Cabinet reshuffle. He is very knowledgeable about Bank Group operations.

His Excellency Kighoma Malima, Ministry of Planning and Economic Affairs

Mr. Malima was born in 1936, and educated at Dartmouth (1965), Yale (1966) and Princeton (1967), Mr. Malima began his career as a lecturer in economics at the University of Dar es Salaam. He was appointed Principal Secretary in the Ministry of Finance and Planning in 1974, and returned to the University as Chairman of the Economics Faculty in 1976. In early 1980, he was appointed Minister of Planning and Economic Affairs. Mr. Malima also exerts considerable influence within the Party (CCM). He is Secretary to the Economic Committee of Cabinet and the General Secretary of the CCM Standing Committee on Economic Affairs. Mr. Malima is Governor of the Bank.

Mr. Gilman Rutihinda, Principal Secretary, Ministry of Finance

Mr. Rutihinda was appointed Principal Secretary of Finance in April in the major Cabinet shuffle that was precipitated upon the death of the then Prime Minister Sokoine. Mr. Rutihinda was previously Principal Secretary of Foreign Affairs from 1981-84 and Principal Secretary for Trade from 1980-81.

Mr. Charles Nyirabu, Governor of the Bank of Tanzania

Born in North Mara and about 42 years of age. Mr. Nyirabu obtained a degree in economics at Makerere University and a Masters degree from Williams College in Massachusetts (1966). On his return to Tanzania he worked at the Ministry of Development Planning and then moved to the Central Bank as Deputy Governor. He was appointed to his present post in 1974.

(Since the actual delegation has not been determined by the Government, shown are selected biographical sketches of those we expect to attend.)

TANZANIA

PROPOSED LENDING PROGRAM

FY84-88

<u>FY</u>	<u>Projects</u>	<u>-----US\$ Million-----</u>		
		<u>Bank</u>	<u>IDA</u>	<u>Total</u>
84	Power IV	0	35.0	
		0	35.0	35.0
85	Technical Assistance IV	0	10.0	
	Ports Rehabilitation	0	27.0	
	Gas Engineering	0	5.0	
		0	42.0	42.0
86	*Roads Rehabilitation	0	30.0	
	<u>Agricultural Rehabilitation</u>	0	25.0	
		0	55.0	55.0
87	*Industrial Rehabilitation	0	20.0	
	*Agriculture Research & Extension	0	20.0	
		0	40.0	40.0
88	Gas Infrastructure	0	15.0	
	*Agriculture Rehabilitation II	0	37.0	
		0	52.0	52.0

* Standby project.

OFFICE MEMORANDUM

DATE: June 11, 1984

TO: Mr. A. W. Clausen, President
(THROUGH): Ernest Stern, SVPOP
FROM: Willi A. Wapenhans, RVP, EAN

EXTENSION: 7-4285

SUBJECT: Your Meeting With Minister Kassum from Tanzania -
3:00 p.m. Tuesday, June 12

6-12-84
D

1. We understand that Mr. Qureshi has arranged for you to meet with His Excellency Al-Noor Kassum, the Minister of Water, Energy and Minerals in the Government of Tanzania. You may remember that you met Minister Kassum in November 1981 during your visit to Tanzania. It was Minister Kassum who first greeted you officially for the Government upon your arrival in Tanzania at the site of the Kidatu Power Projects (of which the FY84 Mtera Project is the third stage).

2. The Minister will have met earlier in the day with Mr. de Larosiere. We understand that this is a purely informal visit, albeit with the full knowledge of President Nyerere, to explore how to improve relations between Tanzania and the Fund and resolve the current impasse.

3. As you know, the critical issue between the Fund and Tanzania has been the extent of a needed devaluation of the Tanzania shilling. Mr. Kraske has just returned from Dar es Salaam where he was informed that the budget to be presented on Thursday, June 14, will include major economic reform measures:

- (a) increases in agricultural producer prices (presumably about 5% in real terms or substantially more in nominal terms);
- (b) elimination of consumer price subsidies on major commodities, e.g. food;
- (c) devaluation substantial enough to absorb the impact of these price increases on the budget; and
- (d) major reforms of parastatal organizations.

.../2

4. We suggest that you simply listen to what Minister Kassum has to say. We believe he has some message to deliver, but we are not sure whether he is at liberty to discuss the points mentioned above.

DADunn:jc/cdw

CONFIDENTIAL

DECLASSIFIED

MAY 31 2019

WBG ARCHIVES



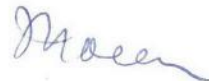
June 8, 1984

Mr. Clausen:

re: Your meeting with H.E. Al Noor Kassum
June 12, 1984

Thank you for agreeing to see Al Noor Kassum. The copy of the attached note to Jacques de Larosière is self-explanatory in terms of the purpose of Kassum's visit. While he recognizes that Tanzania will have to sort out its affairs with the IMF in the first instance, he expressed a strong desire to have the opportunity to confer with you before he goes back to Tanzania.

I am having lunch with Kassum and have invited Willi Wapenhans to join me. Unfortunately, Ernie is away on that day and will not be able to meet with him.



Moeen A. Qureshi

Attachment

OFFICE MEMORANDUM

DATE: June 6, 1984

CONFIDENTIAL

TO: Mr. J. de Larosiere

FROM: Moeen A. Qureshi *MAQ*

EXTENSION: 73665

SUBJECT: H.E. Al Noor KassumDECLASSIFIED
MAY 31 2019
WBG ARCHIVES

As I mentioned to you on the telephone, H.E. Al Noor Kassum, who you have kindly agreed to see on June 12, is the Minister of Water, Energy, and Mineral Resources in Tanzania. He is personally quite close to President Nyerere and in terms of his economic thinking is a sound and pragmatic person. During a recent visit to Mexico - where I met him at a Conference - he expressed to me the desire to confer with you, in a quiet and very confidential way, to explore whether it might be possible to put together the basis for a compromise between the Fund and Tanzania.

I told him that I would be prepared to raise this matter with you if he so wished. He then said that he would like to go back to Tanzania and confer with President Nyerere prior to making any move on this matter.

He has now sent me a message that he would like to have the opportunity to meet with you. He had originally hoped that I might arrange a luncheon with the three of us, but I told him that I thought it would be more appropriate if he saw you alone. He hopes that his visit can be treated as a completely private and confidential call on you. He has said that he is genuinely concerned with what is happening to his country and that he would like to explore whether the minimum requirements of the Fund can be reconciled with the existing political inhibitions. He sincerely wishes the dialogue with the Fund to begin because he genuinely sees that as the necessary wedge that can pry loose the real or perceived political constraints and set in train a process of economic reform that the country needs so desperately.

OFFICE MEMORANDUM

TO: Files

DATE: September 28, 1983

FROM: David A. Dunn, Chief, EALDA *DA Dunn*SUBJECT: Annual Meeting: Mr. Clausen's meeting with Tanzanian Delegation

1. Mr. Clausen met with the Tanzanian Delegation on Sunday, September 25 at 2:00 p.m. A list of those attending is attached. Mr. Clausen welcomed the Delegation to the Annual Meeting. Mr. Msuya thanked Mr. Clausen and said he hoped discussions between his Delegation and Bank staff would facilitate continued good relations. Mr. Clausen agreed and said he hoped relations would both continue and improve. He congratulated the Government for its recent actions and policy decisions in support of structural adjustment. These were steps in the right direction and he hoped they would help the Government re-establish a foundation for economic development.
2. Mr. Msuya thanked the President for his remarks and observed that in the meeting earlier in the day with Regional staff, he had reviewed the recent Government measures and the difficult economic environment in which Tanzania had to operate. Before coming to Washington the Tanzanian authorities had feared that the Bank was beginning to have second thoughts about its relationship with Tanzania. Mr. Clausen responded by repeating that the Bank had taken positive note of the Government's recent actions which would be helpful in the long run. While the Bank welcomed the direction in which these actions led, he pointed out that there was still more to be done. He reminded the delegation of the severe constraints on IDA resources. In these circumstances, it was important for the Bank to work with the Government in shaping an economic framework which would ensure that project investments would have a good return. He assured the delegation that the Bank staff would work diligently to this end so that the Bank/Tanzania relationship could be enlarged along with the flow of assistance.
3. Mr. Msuya asked Mr. Clausen if, while the Government was considering further actions, there was any chance that the Bank could consider a short term program credit to help them remove some of the immediate constraints to increasing production. Mr. Clausen said the Bank understood the serious balance of payments difficulties and the difficult external environment in which Tanzania operated. It was possible that a short term loan could be considered; he asked Mr. Wapenhans to comment. Mr. Wapenhans said that the overall economic crisis loomed so large that it had to be dealt with first. He acknowledged that the response to policy change would not be rapid, however, the magnitude of the problem was so large that a program credit by itself would not be enough to make an impact on the situation. That would require the coordinated action of many donors. When an IMF program was in place, then the Bank could begin to organize a coordinated aid effort. Mr. Msuya asked if there was any could the Bank assist Tanzania in its dialogue with the Fund. Mr. Wapenhans replied that the

Bank staff would try, by conveying its perspective on the situation to the Fund staff. He pointed out that the Bank economic mission just beginning was intended to provide a basis for coordinated aid efforts, and to provide the justification for IDA non-project aid when the circumstances warranted and if this could be in conjunction with other lenders. He reminded the Delegation that the Government's own calculations showed that external aid of \$500 million per annum would be required to support an adjustment program. Mr. Clausen said that \$500 million was a very large amount of aid in today's world and that to justify such magnitudes, Tanzania would have to make a very strong effort. Mr. Msuya noted that the \$500 million figure had been calculated in the context of the Fund's proposed program and would have to be refined in further discussions. Mr. Wapenhans said that it was agreed that the amount needed was substantial. That being the case, it would require a coordinated effort with participation of many lenders.

4. Mr. Clausen thanked the Delegation for the obvious efforts made by the Government in the last year to improve their debt servicing record with the Bank. He wondered, however, whether Tanzania was in difficulties with other lenders and whether a debt rescheduling was needed. Mr. Msuya said the matter was under consideration but that it was obvious that the problem was with arrears on the current account, and not with long term debt.

5. Mr. Malima, asked by Mr. Msuya to talk about the Government's program, said that the Government had been taking very difficult decisions and actions for a year and a half. The fundamental problem remained the lack of external resources to improve utilization of capacity. The need for imported inputs was great even for the agricultural sector, which depended, for example, on fuel and other inputs for transportation to increase productivity and exports. Mr. Clausen said the Bank realized the Government's problems but that it was not possible to have adjustment without pain. He urged the Government to continue to pursue its dialogue with the Fund, and said the Bank would assist the dialogue in whatever way it could. Mr. Wapenhans said that the Bank realized the need for inputs and indeed the need to supply industry, as well as agriculture, in order to provide incentive goods for farmers. The total needs, however, were such that only an integrated program would meet them. Mr. Clausen said an agreed recovery plan, supported by the IMF, the Bank and the Consultative Group, would provide a viable scenario.

6. Mr. Msuya said the Government recognized that adjustment would be painful. The Government would continue its efforts to reach agreement with the Fund in the week following the Annual Meeting. The Government realized that all parties involved wanted to work together to have a mutual basis for progress. Mr. Clausen agreed with Mr. Wapenhans that wide support for a set of consistent policies was a prerequisite for success; this meant also the support of the Tanzanian people. The Bank would continue to work together with the Government on adjustment and a pipeline of lending operations. That had been the Bank's approach for two years. He hoped that with further adjustments, to add to the steps in the right direction already taken, there would be an active lending program in the future.

September 28, 1983

7. Concluding the meeting, Mr. Clausen asked the Delegation to convey his personal greetings to President Nyerere and to thank him for his recent letter, which Mr. Clausen would answer after the Annual Meeting. On the subjects raised in that letter he wished to make only one comment. While the Bank maintained close contact with the IMF, it approached problems with a different perspective. The Bank made and would continue to make independent judgements about what was needed for economic development in Tanzania.

cc: Messrs. Southworth, Wapenhans, Homsí, Kraske, Anderson
Mss. Pratt, Berger, Arevalo

LIST OF PARTICIPANTS

Meeting of the Tanzanian Delegation with Mr. Clausen

During the 1983 Annual Meeting

September 25, 1983

Tanzanian Delegation

Mr. C.D. Msuya, Minister of Finance
(Governor, IMF)

Mr. K.A. Malima, Minister of State for Planning and
Economic Affairs (Governor, Bank Group)

Mr. C.M. Nyirabu, Governor,
Bank of Tanzania

Mr. B. Mkapu, Ambassador to the U.S.

Mr. Fulgence Kazaura, Principal Secretary, Ministry of Finance
(Alternate Governor, Bank Group)

Mr. F.S. Mujuni, Principal Secretary, Ministry of State for
Planning and Economic Affairs

Mr. A.M. Mugheiry, Principal Secretary for Finance
of Zanzibar

Mr. Kipokola, Senior Principal Economist,
Ministry of Finance

Mr. Manongi, Second Secretary,
Embassy of Tanzania

Mr. Kibwana, Commissioner for External Finance
The Treasury, Ministry of Finance

Executive Director

Mr. Smith

IBRD

Messrs. Wapenhans
Kraske
Dunn

TANZANIA

1983 ANNUAL MEETING BRIEF

BRIEFING PAPERS

KEY POINTS



Bank Group Structural Adjustment Discussions
and IMF Stand-by Program

1. Efforts to reach agreement with the IMF and steps taken to lay the groundwork for possible Bank Group structural adjustment or program-type assistance have intensified over the last several months. As a result, the Tanzanian delegation can be expected to ask how the Bank can help them in their discussions with the IMF and how much we will be able to lend for structural adjustment or program-type (sector or rehabilitation) operations.
2. The Principal Secretary, Finance, Mr. Kazaura, and the Governor of the Bank of Tanzania, Mr. Nyirabu, came to Washington for a week of discussions in early July. They attended the Fund Board meeting on the Staff report of the June Article IV mission, and heard a discussion that was unanimously and strongly critical of the Tanzanian Government's handling of the economic crisis. The Government team had come to present a proposal to the Fund which included, inter alia, increases of 40% in agriculture producer prices (which have subsequently been put into effect and which reflect a real adjustment of about 15% over prices last set a year ago); and a further devaluation of 10% in FY83/84 (the Government devalued by 20% in June). The Fund's response was that the proposal was inadequate, and the delegation returned to Tanzania empty handed. It was agreed, however, that there would be further contacts. Mr. Zulu, Director, African Department in the IMF visited Tanzania in mid-August (where a meeting of the IMF African governors was held) and an IMF mission is currently in Tanzania to continue negotiations.
3. While these discussions have not so far led to an agreement on the magnitude of the adjustments needed, there is a noticeable change in the attitude of the Tanzanian Government. They now consider both the advice of the IMF and the Bank and the financial support of our institutions as necessary for a successful economic recovery program. As distinct from previous contacts, there is a growing sense of confidence that an agreement will be concluded simply because there are no other available options in view of the continued deterioration in the economy. In 1982, GDP fell for the second year by 3%. Export revenues fell by 25% compared to 1981. Aid flows also declined and Government was forced to cut back on imports by 16% in real terms over 1981. This resulted in continuing shortages of inputs for agriculture and an industrial capacity utilization rate of about 30%. Tanzania's debt burden has reached unmanageable proportions. As of December 1982, Tanzania's arrears were \$382 million on

August 26, 1983

short-term debt and \$60 million on medium and long-term debt. Debt service on medium/long-term debt averages \$175 million per annum over the next three years. The debt service ratio next year could reach 40% if there is no improvement in export earnings. The Government has decided to try to reschedule a substantial portion of the import arrears and the debt service falling due. At the request of the Government, we have been helping them in the initial stages of the preparation of a rescheduling strategy, in the first instance through helping obtain the assistance of debt management consultants who are now assembling the required data. The situation will be reviewed during the economic mission and a further program of action prepared; staff resources are allocated in the ESWP.

*Rescheduling
of DEBT*

4. Over the last several months, there have been encouraging signs of the Government's intention to work with us on a policy framework. The Government made a serious and thorough review of the recommendations in our Agricultural Sector Report and adopted most of them in their own subsequent report. We have held several fruitful discussions on both reports. The Government recently increased the share of agriculture in the development budget from 6% to 24%. The Government also has requested our participation in the task force it recently set-up to redesign the grain marketing system, including the existing IDA project. Professor Mbilinyi, the Principal Secretary of Agriculture, visited Washington in late-August to continue the agricultural discussions. The Government has requested specifically that we continue our discussions on a structural adjustment program and reach agreement on a package covering all aspects except those in the province of the Fund.

5. In summary, we hope that an agreement may at last be getting closer on a framework of policy reform which permits the Government to plan for some economic recovery in the medium term. We propose to support this process and to prepare for a possible agreement on a suitable program for structural adjustment in several ways. In the first instance, we are working closely with the IMF to define the scope of a medium-term adjustment scenario. We will rely on the Fund to lead the discussions as far as the exchange rate adjustments and related price increases are concerned, as well as the budgetary measures that will be needed to restore a greater measure of fiscal balance. We are contributing to this aspect by restating our views concerning the extent of agricultural price increases needed in the interest of stimulating growth in production. We are at the same time planning an economic mission of our own for the second half of September which will review the situation and the progress achieved so far in the various aspects of the structural reform program. This mission will consider in detail the actions and the timetable needed to expedite institutional reforms. It will review the macroeconomic framework and the balance of payment projections for the adjustment program and it will review in detail the investment program for the next three years. The mission's report should be available in draft by the end of this year. It would serve: as an updating Country Economic Memorandum; as the basis for any possible non-project assistance; and as the documentation for a Consultative Group meeting which would have to follow quickly on any agreement with the IMF and the Bank.

August 26, 1983

6. The proposed policy reform can only be effective and lead to successful economic recovery if it is backed up by substantial additional inflows of foreign exchange to facilitate a more reasonable level of imports. The Tanzanian expectations concerning the prospects for additional aid flows are, however, not very realistic. The Tanzanians hope to receive \$500 million in non-project assistance in each of the next three years. They think they would get \$200 million from bilateral and other sources. With the Fund's help we will estimate likely aid flows and come up with realistic assumptions to back up the medium-term recovery scenario. The Region has discussed with Mr. Stern the level of IDA resources that might be allocated to Tanzania in the current fiscal year. We have agreed on a tentative planning figure of \$50 million for a program-type credit in FY84, to be followed by another credit in FY85.

7. Response to the Tanzanians on Future Assistance. We should make the following points to the delegation:

- (a) We welcome the recent policy responses (agricultural price increases, grain marketing reviews) and are willing to pursue dialogue leading to a program lending operation, conditional on agreement with the Fund.
- (b) In the absence of structural adjustment agreement with the Fund and Bank, lending will continue to be limited to a small program for projects, and this year restricted to the already approved \$35 million Mtera Hydroelectric Project.
- (c) If there is agreement, we will process a program credit of at least \$50 million this year, with a follow-up credit in FY85.

Project Implementation

8. A Country Implementation Review in October 1982 focussed on a review of the Bank Group portfolio in Tanzania. We discussed at that time a number of issues that have affected most Bank Group projects in Tanzania and discussed the status of six specific projects in the agricultural sector. Three of these projects have since been terminated and the remaining credit amounts cancelled. Three of them have been reduced in scope or are in the process of being re-designed. The Government has taken some hard decisions in this area. Disbursement improved in FY83; disbursements as a percentage of amounts outstanding at the beginning of the year were a respective 24%. We should congratulate the Government on results so far, say we hope to have another CIR early in 1984, and welcome the request for Bank involvement in the task force that has been set up to look into grain marketing and to re-design the IDA Grain Storage and Marketing Project.

August 26, 1983

Overdue Service Payments

9. The Tanzanians have made considerable efforts this year to improve their performance with regard to Bank Group service payments. However, while we have not had to repeat our suspension of a year ago, we are concerned that service payments remain on average 60 days overdue. We should say that while we realize that foreign exchange availability in Tanzania is even tighter than last year and that the Government has to make extremely difficult, daily decisions with regard to foreign exchange allocations, we hope that they will make the extra effort now needed to become current.

BIOGRAPHICAL INFORMATION

DELEGATION OF TANZANIA

His Excellency Cleopa D. Msuya, Prime Minister

Mr. Msuya was born in 1931 in Kilimanjaro Region and was educated at Tabora and Makerere College, in Uganda. After 16 years in the civil service (1956-72), he served as Ministry of Finance (1972-75) and Minister for Industries (1975-80) before being appointed to his present post in November 1980. He is very knowledgeable about Bank Group operations.

His Excellency Kighoma Malima, Ministry of Planning and Economic Affairs

Mr. Malima was born in 1943^{1943?}, and educated at Dartmouth (1965), Yale (1966) and Princeton (1967), Mr. Malima began his career as a lecturer in economics at the University of Dar es Salaam. He was appointed Principal Secretary in the Ministry of Finance and Planning in 1974, and returned to the University as Chairman of the Economics Faculty in 1976. In early 1980, he was appointed Ministry of Planning and Economic Affairs. Mr. Malima also exerts considerable influence within the Party (CCM). He is Secretary to the Economic Committee of Cabinet and the General Secretary of the CCM Standing Committee on Economic Affairs. Mr. Malima is Governor of the Bank.

Mr. Fulgence Kazaura, Principal Secretary, Ministry of Finance

Born in the West Lake Region and about 45 years old, Mr. Kazaura is an economist by profession. During the last ten years, he has held several important Government assignments, including Principal Secretary at the Ministry of Development Planning (1971-74), Principal Secretary at the Ministry of Industries (1974-77) and Ambassador to the European Economic Communities (1977-80). He was appointed to his present post in February 1980.

Mr. Charles Nyirabu, Governor of the Bank of Tanzania

Born in North Mara and about 42 years of age. Mr. Nyirabu obtained a degree in economics at Makerere University and a Masters degree from Williams College in Massachusetts (1966). On his return to Tanzania he worked at the Ministry of Development Planning and then moved to the Central Bank as Deputy Governor. He was appointed to his present post in 1974.

(Since the actual delegation has not been determined by the Government, shown are selected biographical sketches of those who we feel may attend.)

ANNEX

TANZANIA

FY83-86 LENDING PROGRAM
(BY SECTOR)

<u>SECTOR/PROJECT</u>		<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>	<u>SECTOR TOTALS</u>	<u>TOTAL</u>
						<u>IDA</u>	<u>(FY83-86)</u>
Sugar Rehab	IDA			20.0			
*Cotton Rehab	IDA				20.0	40.0	
<hr/>							
*Education VIII	IDA			20.0		20.0	
<hr/>							
Power IV (Mtera)	IDA		35.0			35.0	
Coal Engineering	IDA	6.3					
Mufindi Pulp & Paper	IDA	18.0				24.3	
<hr/>							
*Highways VI	IDA				50.0	50.0	
<hr/>							
Dar Sewerage	IDA	22.5					
*Harbours I	IDA			40.0		62.5	
<hr/>							
	IDA	46.8	35.0	80.0	70.0	231.8	231.8
	TOTAL	46.8	35.0	80.0	70.0	231.8	231.8
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*Standby projects.

TANZANIA

1983 ANNUAL MEETING

Supplemental Brief

1. Since the Management Brief was written, Mr. Clausen received a polite and well expressed letter from President Nyerere. The letter was apparently drafted prior to the receipt of Mr. de Larosiere's letter to the President (attached). In fact the latter refrains from using any specific numbers but clearly puts the qualitative case that the seriousness of the imbalance calls for substantial and prompt responses - with which we agree. The President's letter makes two main points and asks two questions. It expresses concern at statements made by the staff during Board presentation of the Mtera Power Project that in the absence of agreement on appropriate structural adjustment measures, no further projects would be presented to the Board this fiscal year. It also implicitly attributes Tanzania's failure to reach agreement with the Fund to a Bank position that a 40% increase in agricultural producer prices in real terms is necessary. The first request is that we appreciate that such an increase is unrealistic; the second is that the Bank make its own judgment about project lending, implying that our assistance strategy is dependent on the outcome of discussions with the Fund. We expect the Tanzanian delegation to pursue these points with you.

2. To deal with the latter point first, President Nyerere interprets "in the absence of agreement on appropriate structural adjustment measures" to mean "in the absence of an agreement with the IMF". We should point out that our position rests on our independent judgment that the present circumstances are not conducive to the success of substantial project investments. There is indeed considerable congruence between the Fund's views and our own judgments. We have indicated to Government on a number of occasions the need for measures going beyond those so far adopted by the Government in several areas including exchange rate adjustment, agricultural producer prices, and institutional reform, especially in the agricultural sector. At the same time, we have been encouraged by recent actions on the exchange rate and agricultural prices, representing first though insufficient steps in the right direction, and by statements of intent about reducing waste and inefficiency in the public sector and allowing a larger role for the private sector. We should point out that the position expressed by the staff at the Board is consistent with our position over the past two years (as indicated by Mr. Clausen to Mr. Jamal during the 1981 Annual Meeting) that we would have to restrict project lending in the absence of progress on the policy framework. N.B.

3. With respect to the question on agricultural prices, we continue to believe that distortions which have entered the system over a period of a decade still remain significant. At the same time, we should point out that our figures are not meant to be applied rigidly. The Bank's agricultural

sector report recommended a range of suggested real price increases between 30% and 50% (the Government's recent increases were about 10% to 15% in real terms). These figures are illustrative. The magnitude of adjustment needed to shift incentives in favor of producers of export crops clearly calls for a substantial increase in producer prices. It is nevertheless only one element in the policy package which would have to include improvements in storage, input deliveries, consumer goods availability, improved transport and other elements. In the absence of a clearly articulated set of measures to reduce the serious imbalances prevailing in the economy, it will simply not be possible to mobilize adequate external resources to address these concerns simultaneously.

4. We should point out that we remain willing to discuss these and all elements of the appropriate adjustment package; indeed, a mission to continue the structural adjustment discussions and prepare an economic memorandum will be leaving during the Annual Meeting week. We might also point out that while the Mtera Board statement reflected our policy of restricting project lending in the present circumstances, especially in the productive and social sectors where the restoration of conducive conditions is essential for their success, we continue to process a number of infrastructure projects in the pipeline for future lending. Our ability to proceed with these is clearly dependent on the availability of IDA and the need to respond in more substantial manner to those members who are critically dependent on IDA support for their reform programs to succeed.

Attachments

September 22, 1983

1299
1st September 1983

President A. W. Clausen,
The World Bank,
Washington D.C., 20433,
U.S.A.

Dear Mr. Clausen,

Tanzania has in the past received very considerable World Bank assistance for many different projects, mostly through I.D.A. In 1981 we also received an Export Rehabilitation Credit of US \$ 50 million. Our relations have always been those of friendly Banker and client; we have dealt directly with each other.

After the July meeting of the IDA Board, Executive Director William Smith informed my Minister for Planning and Economic Affairs that the Board has approved a credit of \$ 35 million for the Mtera Hydroelectric Scheme. We were - and are - pleased that the Directors of IDA share our conviction about the importance of that project to our economy, and particularly to our endeavours to reduce our foreign exchange dependence. When giving us this information, however, Mr. Smith also told us that "in the absence of agreement on appropriate structural adjustment measures, the project under consideration is the only one planned for presentation to the Board of Executive Directors in the current financial year". When I spoke to Mr. Smith during his recent visit to Tanzania, he confirmed that this is the position. In the light of all the surrounding circumstances, my clear impression is that "in the absence of appropriate structural adjustment measures" means, in this context, "in the absence of an Agreement with the I.M.F.".

Tanzania has been negotiating with IMF since 1979. In the last quarter of 1980 we did reach an Agreement, but only the first quarterly disbursement was made. We had accepted some first quarter "target" figures on certain known assumptions about coffee prices and the receipt of the World Bank Credit within that period - both of which assumptions turned out in

retrospect to have been unjustified. Negotiations with IMF started again - and have been limping along since.

The major problem between IMF and Tanzania is their demand that we increase export producer prices by 40% in real terms. The arithmetic of their T. Shilling devaluation demand appears to be based on that. Put briefly, our argument makes three points. First, that this producer prices demand is based on ignorance of the realities of crop production conditions in Tanzania. Secondly, that it takes no account of the structure of the Tanzanian economy or the nature of the present disincentives caused by lack of manufactured goods for the peasants to buy. And thirdly, that the consequent devaluation and other proposals would cause both a reinvigorated and more rapid inflationary spiral, and social disorder which would be economically (as well as politically) disastrous. The IMF have not answered our arguments up to now; they have simply said that our own proposals "do not go far enough". Discussions continue; meanwhile our problems intensify.

I am writing to you now in the hope that you will be able to consider helping us in two ways.

Firstly, since producer prices are primarily within the functioning areas of the Bank I am asking that the Bank should appreciate that this demand for a producer price increase of "40% in real terms" is unrealistic. Even our own endeavour to give the export producers an extra 5% in real terms will not be easy to achieve and involves political and economic risk. If this can be appreciated then our next discussions with the IMF have a greater prospect of success. For the other substantive issue now separating us - that of how much devaluation - should also become susceptible to rational debate. Last year we had a 10% devaluation without an agreement with the Fund and in June this year we had another 20% devaluation without an Agreement. We have told the Fund that we are prepared to have another 10% devaluation as part of an Agreement.

My second request is that the World Bank should in any case continue to make its own judgement about Tanzania's needs, the economic viability and usefulness of any project or programme support proposals submitted to it, and the

seriousness with which we are trying (in very adverse circumstances) to effect the necessary reforms in our economy. Let me at once make it clear that I am fully aware of the severe limitations now existing on IDA resources; when this problem first arose I did in fact use such influence as I have to try to persuade European friends of Tanzania not to cut their contributions to IDA when the U.S. Government made its own cut in allocations. But it is one thing for IDA or the Bank to say that a particular measure of assistance is justified but beyond their current resources; it is a quite different thing to suspend Board consideration of all other Tanzanian projects, even those which have already been appraised or have been moving along the negotiation pipe line.

I conclude by taking this opportunity to send my personal good wishes to you.

Yours sincerely,

Tulius K. Yona

CC: MANAGING DIRECTOR
DEPUTY MANAGING DIRECTOR
MR. SANGARE
MR. NICOLETOPOULOS
MR. VAN HOUTVEN
MR. FINCH
MR. TANZI
MR. HABERMEIER
MR. N. CARTER

SEP 7 1983

Dear Mr. President:

Mr. Zulu, Director, African Department, has reported to me the message which you gave him at a meeting he had with you in Dar es Salaam on August 11, 1983. I note that you are concerned about the relations between your country and the IMF. I would like to assure you that the Fund stands ready to cooperate with Tanzania in finding solutions to the economic deterioration, and, in so doing, to mobilize the maximum response of other international institutions, donors, and the banking community for a stronger contribution to your adjustment efforts. Let me also assure you that the International Monetary Fund fully respects the sovereignty and domestic arrangements of its member countries. Our goodwill toward your country has been demonstrated by the efforts to continue the dialogue with Tanzania over a number of years, even when many difficulties have been encountered. The Fund is deeply concerned about the difficulties being faced, not only by Tanzania, but by many of our member countries in your region and elsewhere.

You are not happy, according to my report, that, in the last four years, there has been no Fund program in Tanzania, and expressed your belief that Tanzania may have been unfairly treated in this connection compared with other countries. You stated that you felt that Tanzania was being asked to adopt drastic corrective measures which you feel are probably not asked of other countries. Furthermore, you have had the feeling that our assessment of the seriousness of the economic situation, as reflected in the recent Executive Board discussion of the Article IV consultation with Tanzania, is rather alarmist. What the peasant farmers desperately need are goods to purchase; industries, also, need spare parts in order to run at higher capacity; hence, your conclusion that your country's most crucial need right now is availability of foreign exchange, rather than taking strong adjustment measures.

In this letter I would like to devote some time to these issues. The issue is not whether there will be adjustment: it is how the adjustment can best be made and the overall likely effect of the measures. For a program to materialize, we must reach understandings on the measures that will not only be convincing to the two parties concerned, but also to others whose financial contribution will be critical in enabling the adjustment to take place more effectively, and hence the foreign exchange to be available.

CHRONOLOGICAL COPY

I wish to recall that a two-year stand-by arrangement was approved by the Board effective September 15, 1980 in the amount of SDR 179.6 million. However, the program became inoperative within three months, the agreed ceilings on arrears, domestic credit and credit to Government not having been met. The margins by which the ceilings were exceeded were of such magnitude that a restoration of drawing rights under the existing program was not possible. The failure to implement that program meant that in the next two years the problems that had to be addressed were not; solutions were unfortunately postponed. Since the nonperformance of the 1980 program, there have been numerous attempts on both sides to reach understanding on a new program. Specifically, in 1981 there were serious efforts to develop an economic program that would be supported by an EFF--a three-year medium-term program. These intensive discussions did not come to fruition, as the differences of view on the actions required remained unreconcilable.

Then the failure to settle the overcompensation of a CFF drawing made in June 1981 made it difficult for the Fund to discuss use of Fund resources in the latter part of 1982 and early 1983. This implied another wait for the resumption of such discussions, which were finally initiated in May 1983. The most recent discussions, although they had intensified with the visit of your representatives to Washington in early July of this year, have not yet resulted in a measure of understanding that would ensure the conclusion of a program soon. Indeed, I wrote to the Minister of Finance on July 15, 1983 to the effect that, while the proposals brought to the Fund by the Governor of the Central Bank and the Principal Secretary, Finance, were in the right direction, they were, in our judgment, not adequate. Stronger adjustment measures to deal with the persistent economic problems were required in order that further discussions could be meaningful. More recently Mr. Zulu had informal exchanges with the Minister of Finance and the Governor of the Central Bank in Arusha on the exchange rate and producer prices. Thereafter, he had similar informal exchanges in Dar es Salaam with the Minister of Finance, the Minister of Planning and the Principal Secretary, Finance, in an attempt to find some basis for continued discussion on a program that would be supported by use of Fund resources.

I thought I should recount the recent history, which shows that: (a) the last Fund program with Tanzania failed because the measures agreed were not implemented; (b) there has been persistent activity on both sides since then to try and agree on a new program. It is not uncommon that negotiations for use of Fund resources are difficult and protracted when the situation is difficult. I am fully aware that the authorities of every country are concerned about the impact of painful measures on their populations. But to delay appropriate measures further merely leads to greater hardship and makes more difficult the ultimate solution of the problems. The Fund, for its part, must be assured that the economic

CHRONOLOGICAL COPY

policies to be followed by a member are commensurate with the seriousness of the problems addressed, and must have sufficient confidence that they will be effective enough to right the economy and the balance of payments in the medium term.

Our concern with the seriousness of the present economic situation in Tanzania is prompted by a declining level of real GDP and a high rate of inflation. The rate of inflation in Tanzania is well above 30 percent, against an average of 16 percent in the rest of sub-Saharan Africa. The very large imbalances are also reflected in a government deficit equivalent to over 40 percent of total expenditure; the value of exports equivalent to only 40 percent of the value of imports; and a ratio of scheduled debt service to exports of over 50 percent. Associated with this there has been a depletion of foreign reserves and the incurrence of commercial arrears in the amount of \$400 million, which has made it impossible to find relief from private financial sources--all letters of credit for Tanzanian imports must be fully confirmed. Our assessment of the economic situation in Tanzania is not, therefore, to be seen as alarmist; it is clear to me that such imbalances cannot be sustained for long.

The Fund believes that the deteriorating economic situation can be reversed only by a strong policy response designed first to arrest the decline and then lead to increased output. There is broad agreement between the Fund staff and Tanzanian officials as to the comprehensive array of policies which are necessary. It is, however, clear that there is disagreement on the magnitude and speed of adjustment required in these policies. Our view that adjustment should be more substantial and prompt is based on a belief that a new program must be seen as a signal of strong new policies to both domestic producers and to those who are going to contribute to the financing of the adjustment effort. The key thrust of the policies must be to provide adequate incentives to halt declining output. We agree fully that the adoption of such policies must be complemented by a rise in the availability of foreign exchange to reduce the constraint on imports; but meaningful external financing will be available only after decisive policy action has been taken.

The principal features of the adjustment program we believe appropriate to Tanzania include the following: a substantial rise in producer prices to stimulate output, and the marketing of output through official channels; this would be complemented by a diminished scope of price controls and liberalizing the distribution system. In this regard we understand fully that account should be taken of the need to protect the poorest and most vulnerable stratum of society. Assuming a favorable general environment, such policies could not only lead to a rise in output and exports and a reduction in the import constraint, but also to a broadening of the tax base as economic activity picks up and returns to official markets. This latter point is important, as it increases the efficacy of government

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policies by bringing more economic activity under its influence. Higher prices for principal crops will also require the adjustment of other prices so that economic activity is conducted at prices that will give the producer a fair return for his labor and the cost of production. In this regard, it is essential that the functioning of the parastatals be made more efficient and their activities self-financing. The strengthening of the public and parastatal finances should have the effect of reserving more bank credit to productive activities and reducing inflationary pressures which emanate from high levels of bank credit expansion.

Consistent with these policies and with a view to providing the necessary financing for the marketing organizations, we believe that there will be a need for a substantial adjustment of the exchange rate of the shilling—an adjustment substantially beyond that proposed by Tanzania. This view is primarily based on the size of the balance of payments imbalance, and the fact that inflation in Tanzania has been much greater than that of most of its trading partners since early 1980. By failing to adjust the exchange rate to take into account the different rates of inflation, Tanzanian goods have become more expensive and foreign goods have become cheaper—thereby adversely affecting the balance of payments position. Moreover, while it is true that the export prices of Tanzania's principal exports are determined abroad, the failure to adjust the rate of exchange to take into consideration the rate of inflation has sharply reduced the profitability of production for official export. The differentials in inflation and exchange rate developments between Tanzania and its neighbors have led to trade outside official channels, reduced the tax base and may well have contributed to the government deficit and the need for excessive bank credit.

I would like to make two points: first, the size of the adjustments has to be tailored to the extraordinarily large imbalances in the economy, and, as the imbalances grow, the required adjustment will have to be correspondingly stronger; second, I am fully aware that there may be factors—external, domestic or institutional—that could make the full attainment of benefits from the proposed policies difficult; I would, nevertheless, strongly advise the Government to take the needed decisive actions as soon as possible.

Let me assure you, Mr. President, that the Fund is prepared to support a meaningful program of adjustment in Tanzania. However, to be realistic, such a program must be consistent with a revival of economic growth and a sustainable balance of payments position within the medium term, and must include measures of a magnitude which will ensure such an outcome. To your question, as to whether it is worthwhile for Tanzania to continue discussions with the Fund, my answer is an emphatic yes, if a basis can be found for it as discussed above.

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Please, Mr. President, accept my most sincere wishes for a favorable outcome in our negotiations.

Respectfully,

J. de Larosière
Managing Director

His Excellency Mwalimu Julius Nyerere
President of the United Republic of Tanzania
State House
P.O. Box 9120
Dar es Salaam
United Republic of Tanzania

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Tom

Willy will make sure to send a supplementary brief for your meeting with Tanzania - on Sept.25 at 2 p.m. - to cover this. He wants to hold off on replying until he has spoken with the Delegation.

RoY - 9/20/83

OK
A

President A.W.Clausen,

Please find hereby enclosed letter
from President J.K.Nyerere.



*With the Compliments of the
Embassy of
The United Republic of
Tanzania*

B.L. Ngollo
B.L. Ngollo

T/S/C

19/9/83

WASHINGTON, D. C. 20008

Orig W. Wapenhans R.1
copy E Stern 9/20

THE STATE HOUSE,
DAR ES SALAAM,
TANZANIA.

1299
1st September 1983

President A. W. Clausen,
The World Bank,
Washington D.C., 20433,
U.S.A.

Dear Mr. Clausen,

Tanzania has in the past received very considerable World Bank assistance for many different projects, mostly through I.D.A. In 1981 we also received an Export Rehabilitation Credit of US \$ 50 million. Our relations have always been those of friendly Banker and client; we have dealt directly with each other.

After the July meeting of the IDA Board, Executive Director William Smith informed my Minister for Planning and Economic Affairs that the Board has approved a credit of \$ 35 million for the Mtera Hydroelectric Scheme. We were - and are - pleased that the Directors of IDA share our conviction about the importance of that project to our economy, and particularly to our endeavours to reduce our foreign exchange dependence. When giving us this information, however, Mr. Smith also told us that "in the absence of agreement on appropriate structural adjustment measures, the project under consideration is the only one planned for presentation to the Board of Executive Directors in the current financial year". When I spoke to Mr. Smith during his recent visit to Tanzania, he confirmed that this is the position. In the light of all the surrounding circumstances, my clear impression is that "in the absence of appropriate structural adjustment measures" means, in this context, "in the absence of an Agreement with the I.M.F.".

Tanzania has been negotiating with IMF since 1979. In the last quarter of 1980 we did reach an Agreement, but only the first quarterly disbursement was made. We had accepted some first quarter "target" figures on certain known assumptions about coffee prices and the receipt of the World Bank Credit within that period - both of which assumptions turned out in

.../2

retrospect to have been unjustified. Negotiations with IMF started again - and have been limping along since.

The major problem between IMF and Tanzania is their demand that we increase export producer prices by 40% in real terms. The arithmetic of their T. Shilling devaluation demand appears to be based on that. Put briefly, our argument makes three points. First, that this producer prices demand is based on ignorance of the realities of crop production conditions in Tanzania. Secondly, that it takes no account of the structure of the Tanzanian economy or the nature of the present disincentives caused by lack of manufactured goods for the peasants to buy. And thirdly, that the consequent devaluation and other proposals would cause both a reinvigorated and more rapid inflationary spiral, and social disorder which would be economically (as well as politically) disastrous. The IMF have not answered our arguments up to now; they have simply said that our own proposals "do not go far enough". Discussions continue; meanwhile our problems intensify.

I am writing to you now in the hope that you will be able to consider helping us in two ways.

Firstly, since producer prices are primarily within the functioning areas of the Bank I am asking that the Bank should appreciate that this demand for a producer price increase of "40% in real terms" is unrealistic. Even our own endeavour to give the export producers an extra 5% in real terms will not be easy to achieve and involves political and economic risk. If this can be appreciated then our next discussions with the IMF have a greater prospect of success. For the other substantive issue now separating us - that of how much devaluation - should also become susceptible to rational debate. Last year we had a 10% devaluation without an agreement with the Fund and in June this year we had another 20% devaluation without an Agreement. We have told the Fund that we are prepared to have another 10% devaluation as part of an Agreement.

My second request is that the World Bank should in any case continue to make its own judgement about Tanzania's needs, the economic viability and usefulness of any project or programme support proposals submitted to it, and the

seriousness with which we are trying (in very adverse circumstances) to effect the necessary reforms in our economy. Let me at once make it clear that I am fully aware of the severe limitations now existing on IDA resources; when this problem first arose I did in fact use such influence as I have to try to persuade European friends of Tanzania not to cut their contributions to IDA when the U.S. Government made its own cut in allocations. But it is one thing for IDA or the Bank to say that a particular measure of assistance is justified but beyond their current resources; it is a quite different thing to suspend Board consideration of all other Tanzanian projects, even those which have already been appraised or have been moving along the negotiation pipe line.

I conclude by taking this opportunity to send my personal good wishes to you.

Yours sincerely,

Tulius K. Gyau

OFFICE MEMORANDUM

TO: Files

DATE: September 14, 1982

FROM: Robert Calderisi, Loan Officer, EALDA *mc*SUBJECT: Mr. Clausen's Meeting with the Tanzania Delegation

1. Mr. Amir Jamal, Minister of Finance for Tanzania, called on Mr. Clausen on September 7, 1982. Mr. Jamal was accompanied by Mr. Kighoma Malima, Minister of State for Planning and Economic Affairs; Mr. Charles Nyirabu, Governor of the Bank of Tanzania; Mr. Fulgence Kazaura, Principal Secretary of Finance; and Mr. S. Abdulai, Executive Director. Messrs. Wapenhans, Kraske, Humphrey and I were also present at the meeting.
2. Mr. Clausen asked the Minister what he thought of the atmosphere of the Annual Meetings this year. Mr. Clausen's own impression was that participants had returned to discussing fundamentals of economic management. Mr. Clausen noted that the Tanzanian economy was in even worse circumstances than when he visited the country in November 1981. External factors such as low commodity prices, difficult external debt situations and limited capital resources were affecting everyone, including the Bank and IDA, and we were all having to adjust to new circumstances. In this connection, Mr. Clausen asked the Minister about the status of Tanzania's relations with the IMF.
3. Mr. Jamal said that he would be seeing the Managing Director of the Fund on September 8 and that he would be inviting him to send an early mission to Tanzania for formal negotiations. However, he stressed that the Fund would need to be flexible. Tanzania was prepared to make adjustments, but the Government did not want the medicine to be worse than the disease. Mr. Clausen noted that an agreement with the Fund would help the Bank to restore its own rate of commitments to Tanzania, as these had dropped recently both as a result of the general difficulties in economic management and a disappointing record of project implementation. Mr. Jamal said that the Government was now emphasizing consolidation in its development planning, but it needed the Bank's support in this.
4. Mr. Clausen referred to the Government's recently published Structural Adjustment Program and suggested that it still lacked sufficiently detailed proposals for remedial measures particularly in agriculture. Mr. Wapenhans explained that detailed implementation steps were being prepared and that these would be reviewed by an economic mission due to visit Tanzania in late September. It also hoped to carry with it an agricultural sector report which was nearing completion. Mr. Clausen said that the Bank would do all that it could to assist the Government in adopting appropriate recovery measures.

5. Mr. Jamal said that he appreciated the Bank's continued interest in Tanzania's problems. He realized that short term resources would have to be obtained from the IMF, but these would need to be dovetailed with longer term assistance from the Bank. He also believed that adjustments would need to be phased rather than introduced all at once. Mr. Clausen agreed that an appropriate sequence was necessary, but he did not believe that phasing need result in a slow response to urgent circumstances.

6. Mr. Wapenhans pointed out that time was hardly on Tanzania's side. Projects were already running into difficulties and becoming more costly as a result of the suspension of disbursements on June 14. Mr. Clausen asked the Minister what the Government was doing to resolve this problem. Mr. Jamal said that the arrears were not the result of deliberate decisions of the Government but, rather, an unfortunate consequence of the country's weak foreign exchange position. Tanzania needed the Bank's understanding in this area. Mr. Wapenhans said that the situation underlined again the need for regaining early access to IMF facilities in order to overcome the immediate foreign exchange problem. Tanzania's debt burden per se was not heavy compared with that of other countries in the Region. Mr. Jamal replied that he hoped to be able to reach an agreement with the Fund, but he also hoped that non-project assistance could be made available from the Bank as promptly as possible, thereafter. Both the budgetary outturn and Tanzania's ability to comply with IMF conditions would depend in part upon rapid follow up assistance from IDA.

7. Mr. Clausen asked whether Tanzania's development strategy did not need to be re-examined in the light of unfavourable external factors. Mr. Jamal said that the Government had been exploring a range of adjustments, but short term options were very scarce. Mr. Clausen noted that the range of options would become even narrower and their consequences more painful, the longer the Government postponed difficult decisions. He thought that decisionmakers should assume that international circumstances would not improve, and that adjustments should be large enough to provide the economy with breathing room even under the worst assumptions. The Bank would try to be sensitive and constructive in supporting the Government's own efforts in that direction.

8. Mr. Jamal thanked Mr. Clausen for his understanding of Tanzania's difficulties and promised to keep the Bank informed of future developments in discussions with the IMF.

Cleared with and cc. Mr. Kraske

cc. Messrs. Clausen, Stern, Wapenhans, Gulhati, Dunn

RCalderisi:dsl

9-7-82

(Senior Management Version)

TANZANIA

BRIEFING PAPER

1982 ANNUAL MEETING

Meeting with the Tanzanian Delegation

TABLE OF CONTENTS

KEY POINTS

Non-Project Assistance
IMF Discussions
Overdue Service Payments
Project Implementation
East African Community

BIOGRAPHICAL INFORMATION

ANNEX

Lending Program

September 1982

TANZANIA

1982 Annual Meeting

Meeting with the Tanzanian Delegation

Key Points

While he is not Governor of the Bank, it is likely that the Tanzanian delegation will be headed by the Minister of Finance (Mr. Amir Jamal) who is a more senior member of the Cabinet than the Minister of State for Planning and Economic Affairs (Mr. Kighoma Malima); Mr. Clausen met both of them during his visit to Tanzania in November 1981. The Tanzanians will want to discuss the prospects for early non-project assistance from IDA; in particular, they will be interested to know when we will appraise a first structural adjustment credit. We should inform them briefly of our initial reaction to recently announced recovery measures and of our plans for follow up discussions with the Tanzanian authorities. We should reiterate the importance of early progress in discussions with the IMF and advise the delegation that even additional project lending from the Bank Group will be difficult to justify in the absence of a comprehensive adjustment program. We should also express our concern about overdue service payments and project implementation performance, particularly in the agricultural sector. Finally, we should thank the Minister of Finance (Mr. Jamal) for his personal efforts in advancing the successful mediation of assets and liabilities of the former East African Community.

Post due

N.B.

Tanzania has been one of our largest African borrowers with US\$1,024 million in total lending since 1962, all of it on IDA terms during the last three years. New commitments have been sharply reduced recently - from US\$135 million in FY80 to an expected US\$65 million in FY83 - as a result of major difficulties in justifying new project lending. Disbursements have remained steady despite the economic crisis in the country but, in other respects, there has been a deterioration in project implementation, particularly in the agricultural sector. Recent lending has focussed on rehabilitation activities or undertakings (such as forestry, telecommunications and oil exploration) which can be cushioned to a large extent from the general imbalances in the economy. There has been no meeting of the Consultative Group for Tanzania since May 1977; however, it is hoped that some form of donors' meeting can be organized in early 1983. A possible focus of such a meeting would be the Government's proposed recovery program, which was prepared during the first half of 1982 with the assistance of an Advisory Group, consisting of sympathetic and knowledgeable outsiders. The work of this Group has attracted considerable attention inside and outside Tanzania. Disbursements to Tanzania, however, have been suspended since June 14, 1982 as a result of the Government's failure to meet overdue service payments to the Bank Group.

Non-Project Assistance

Tanzania's economic circumstances have deteriorated even further since the last Annual Meeting, as a result of falling export prices, stagnant cash crop production and the debilitating effects of three years of extreme foreign exchange shortages. There has been a slight decline in foreign assistance to Tanzania during the last two years, resulting in a sharply higher overall balance of payments deficit. This was financed through additional accumulation of import arrears - equivalent to about 60 percent of 1981/82 exports - and a further drawdown of international reserves.

The Government has recently published a "Structural Adjustment Programme" (June 1982) based on the recommendations of the Advisory Group which was financed by IDA. We understand that there was considerable controversy within the Tanzanian Cabinet about how much of the Group's recommendations should be included in the Government's program. In fact, the published program still falls considerably short of expectations in important areas. It contains few concrete proposals for reviving agricultural production and none at all for further exchange rate adjustments. It is also unconvincing in regard to producer and retail pricing, transport, distribution and parastatal reform. While the Government's budgetary proposals for 1982/83 - including substantial cuts in development expenditures - appear to be in the right direction, it must still be determined how these retrenchment measures will be implemented successfully. On balance, we do not believe that the program - as it stands - constitutes a sufficient basis for short-term rehabilitation on long term recovery. It is essentially a statement of intentions (many of which are consistent with previous Bank advice) but it lacks a detailed plan and measures of implementation. However, we think that the program merits detailed discussions with the Government in an attempt to sharpen or amplify key parts of the plan. One such area is institutional and organizational measures which would reduce the scope of parastatal activities, establish better controls on their performance and allow a much larger role in the economy for cooperatives and private individuals. M


We have recently completed a comprehensive study of the agricultural sector which includes specific proposals for major adjustments on pricing, marketing, parastatal organization and distribution. Most of these measures would need to be part of a wide ranging recovery program and will be the subject of intensive discussions with the Government during the next four months. The agricultural sector will also require increased emphasis in the allocation of domestic and foreign exchange reserves.

When the Tanzanians ask us about our plans to appraise a structural adjustment credit, we should advise them that we propose to send an economic mission to Tanzania in mid September 1982 to undertake a detailed discussion of the Government program. One purpose of the mission would be to determine how much additional room for adjustment exists, beyond that summarized in the published program. (We have already written to the Tanzanians to advise them of these plans, in a reply to a letter which the Minister of Finance wrote to Mr. Clausen in July 1982 requesting IDA

appraisal of the Government's program.) We should warn the Tanzanians that whether the appraisal will lead to provision of non-project assistance will depend on whether the Government can go beyond the present program. The September mission would also wish to review specific action programs in support of the general recovery plan. It would be followed up in October with an agricultural mission which would discuss the contents and implications of the draft sector report.

IMF Discussions

We should ask the Tanzanians to brief us on the progress of recent discussions with the IMF and how the Government expects these to evolve. We should stress again (as we did at the last Annual Meeting and during the President's visit to Tanzania in November 1981) that early progress with the IMF is indispensable to an effective recovery program. The delegation may ask whether this is a precondition of additional staff work by the Bank in connection with the Government's recovery program. If they do so, we should assure them that the Bank will be assessing the program on its own merits, whether or not discussions prove immediately productive with the Fund. However, any non-project assistance will depend on the Government's eventual success in negotiating complementary import financing from the Fund and bilateral agencies. We should say that we are prepared to assist the Government in mobilizing such support. In this respect, we should express the hope that the Government will make it possible for us to call a Consultative Group Meeting to review a wider recovery program and discuss its resource requirements.



Overdue Service Payments

We should remind the Tanzanians that other very urgent matters need to be resolved. Bank Group disbursements to Tanzania have been suspended since June 14 as a result of the Government's failure to meet overdue service payments on existing loans and credits. The arrears could amount to about US\$14.5 million by the time of the Annual Meeting; no payments have been received from the Government since those due on April 15, 1982. The suspension has already had a damaging impact on project implementation, and we should stress to the Tanzanians that settlement of the arrears and a general improvement in their payments record are essential for maintaining our lending operations.

Project Implementation

We should express concern about the recent deterioration in project implementation, particularly in the agricultural sector. The Government is aware that we are reviewing the Tanzanian portfolio and have already written to Treasury in connection with projects facing special difficulties. While general economic conditions are hardly conducive to smooth project execution in the country, we should remind the Minister that some problems are directly related to the slowness of Government decision-making on important topics such as the structure of the largest agricultural parastatal (the National Milling Corporation) or to unfortunate Government practices, such as the frequent rotation of project staff. The

Minister will want to discuss the status of particular projects in some detail with Mr. Wapenhans and Mr. Kraske; however, we will want to say that, in addition to improving implementation of some projects, the Government should give serious thought to dropping others which may no longer deserve priority in the overall investment program or for which earlier designs are no longer appropriate. We should stress that the Government's effort to consolidate its development budget should also apply to the existing Bank Group program in Tanzania, as some investments may now be imposing unnecessary burdens on Government staff and other public resources. Such consolidation will be one of the subjects addressed in a Country Implementation Review in Dar es Salaam later this year.

In the absence of an agreement on appropriate recovery measures for the economy, more reliable service payments and an improvement in project implementation, it will be very difficult to maintain a large pipeline of new project lending operations for Tanzania, even in the areas of rehabilitation and higher capacity utilization which have been the subjects of recent investments. We should emphasize that we remain available to provide appropriate advice and assistance in the difficult adjustment process facing the economy, but that there are limits to how far we can help in determining and implementing appropriate priorities domestically.

East African Community

We should thank the Minister of Finance (Mr. Jamal) for his very constructive personal interventions in the mediation discussions concerning the former assets and liabilities of the East African Community. We should also express the hope that the Mediation will be completed successfully and very shortly.



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TANZANIA

LENDING PROGRAM BY SECTOR
(FY83-FY84)

<u>SECTOR/PROJECT</u>	<u>-US\$ Million-</u>	
	<u>FY83</u>	<u>FY84</u>
<u>Agriculture</u>		
Sugar Rehabilitation		20.0
<u>Ports</u>		
Harbours I		18.0
<u>Water and Sewerage</u>		
Dar Sewerage and Sanitation	22.0	
<u>Industry and Mining</u>		
Coal Engineering	5.0	
<u>Education</u>		
Education VIII (S)		20.0
<u>Transportation</u>		
Highways VI (S)		20.0
<u>Non-Project</u>		
SAC I (S)		60.0
<u>Energy</u>		
Power IV	38.0	_____
GRAND TOTALS	<u>65.0</u>	<u>138.0</u>