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McNamara Papers

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A1993-012 Other #: 18

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Contacts with member countries: Tanzania - Correspondence 01

Contacts
Tanzania (1969-1981)

Folder 13

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WBG Archives

TANZANIA

TANZANIA

- 4/3/68 Derek Bryceson, Minister of Agriculture
Ambassador Lukumbuzya
1. 9/30/68 A. H. Jamal, Minister of Finance
2. 1/7-11 Brakel MemCon on trip
- 1/8/70 Paul Bomani, Minister of Economic Affairs and Development Planning
(D.esS.)
- " A. H. Jamal, Minister of Finance
- " W. Chagula, Principal, University College
- 1/9/70 President Julius K. Nyerere
(D.esS.)
- " C. George Kahama, General Manager, National Development Corporation
- " Amon J. Nsekela, Chairman, National Bank of Commerce
- " G.M.S. Mawalla, General Manager, Tanzania Tourist Corporation
- " G.M. Rugarabamu, General Manager, National Agriculture and
Food Corporation
- " J.A. Mhaviile, Chairman, National Development Credit Agency
- " G.B. Rusimbi, Chairman, Lint Marketing Board
J.F. Robinson, General Secretary
- " E.I.M. Mtei, Governor, Bank of Tanzania
- " Sheikh Abeid A. Karume, First Vice President
R.M. Kawawa, Second Vice President
D.N.M. Bryceson, Minister of Agriculture, Food and Cooperatives
J.M. Lusinde, Minister of Communications, Transport and Labour
A.M. Babu, Minister of Commerce and Industries
H. Makame, Minister for Information and Tourism
P.A. Kisumo, Minister of State, Ministry of Regional Administration
and Rural Development
- 1/10/70 John Owen, Director of Tanzania National Parks
(Ngoron-
goro Crater)
- 1/11/70 Peter K. Kinyanjui, Chairman, East African Harbours Corp.
(Arusha) C. Tamale, Director General, East African Harbours Corp.
- " Z.H.K. Bigirwenkya, Secretary General, East African Community

- 1/11/70 (Arusha) J. Okello-Ojok, Chairman, East African Railways Corp.
E.N. Gakuo, Director General, East African Railways Corp.
- " S.O. Josiah, Chairman, East African Posts and Telecommunications Corp.
J. Keto, Director General, East African Posts and Telecommunications Corp.
- " Iddi Simba, Chairman and Director General, East African Development Bank
- " A. Fundikira, Chairman, East African Airways Corp.
3. January '70 "Random Thoughts" (*Filed in RMcN office*).
4. 10/1/71 A.H. Jamal, Minister for Finance
- 4/15/75 Paul Bomani, Ambassador to the US (Courtesy call)
5. 9/4/75 C. F. Msuya, Minister for Finance
K. A. Malima, Principal Secretary to The Treasury
6. 10/5/76 (Manila) A. H. Jamal, Minister for Finance
K. A. Malima, Principal Secretary, The Treasury
7. 6/10/77 Ambassador Paul Bomani
8. 8/4/77 President Julius Nyerere
- 10/10/77 Justinian Rweyemamu - Research Advisory Panel on Income
Distribution and Employment
9. 9/22/78 Edwin Mtei, Minister of Finance
Annual Meeting Amb. Bomani
10. 4/6/79 Finance Minister Mtei
Ambassador to the U. S. Bomani
11. 1/19/80 RMcN Notes on Visit (*Filed in RMcN office*).
12. 1/19/80 (Arusha) Amir Jamal, Minister of Finance
K. Malima, Minister of Planning and Economic Affairs
Ernest Mulokozi, Principal Secretary, Ministry of Finance
Mr. Mbilinyi, Economic Advisor to the President
Mr. F. Byabato, Ministry of Finance
Mr. Wasiri, Regional Commissioner, Mara
- 1/19/80 President Nyerere
Amir Jamal, Minister of Finance
Kighoma Malima, Minister of Economic Planning
Mr. Wasiri, Regional Commissioner, Mara
Ernest Mulokozi, Principal Secy to the Ministry of Finance
Professor Simon Mbilinyi, Economic Advisor to the President
Francis Byabato, Ministry of Finance
Mr. Mamfua, Ministry of Foreign Affairs
Mr. Butiko, Personal Assistant to the President

13.
3. 9/27/80 Amir Jamal, Minister of Finance
Annual Messrs. Fulgencio Kazaura, Principal Secretary, Min. of Finance
Meeting F. Mbaga, Principal Secretary, Min of Planning
 D. G. Rwegasira, Chief Economist, Bank of Tanzania
 Amb. Paul Bomani
14. 5/29/81 Amb. Paul Bomani



October 3, 1969

Mr. McNamara's Meeting with Mr. Jamal, Minister of Finance, Tanzania

Mr. McNamara met privately with Mr. Jamal on Tuesday, September 30, at 6:20 p.m. at the Sheraton-Park Hotel. Mr. Jamal extended the greetings of the President of Tanzania and said they were hopeful that Mr. McNamara could visit Tanzania soon. He mentioned that East Africa was undergoing a period of trial and uncertainty, particularly after the death of Tom Mboya who had been a very dedicated supporter of the East African community. Mr. Jamal expressed his deep concern about Kenya, which he thought presently was not living up to its responsibilities under the East African Treaty. He feared that this situation could seriously jeopardize integration efforts in the region. Mr. Jamal said that his country considered the Community extremely valuable to the future progress of the region.

Mr. McNamara mentioned that the Bank had had many difficulties with joint projects in East Africa. He was particularly disappointed when the industrial project failed. Mr. Jamal recognized these problems but remarked that in none of the cases could it be said that Tanzania had failed to fulfill its part of the agreements. Mr. Jamal praised the work of the Bank staff who had been very dedicated and helpful in supporting regional integration in East Africa. Mr. McNamara hoped the Bank could continue to be of such help in the future. He said Mr. Jamal should not hesitate to cable or send him letters directly on matters he wished Mr. McNamara to consider at his level.

Mr. Jamal said that Tanzania had realized the necessity of establishing an education system which would relate directly to agricultural development and he applauded this point in Mr. McNamara's speech last Monday. Mr. McNamara said that the Bank had not yet progressed very far in this field but it intended to move ahead more rapidly in the future, as it acquired more knowledge about the relationship between education and agricultural production. He would be interested in supporting an experimental project in education in East Africa, if any of the East African countries so desired. Mr. Jamal said that this would be of considerable interest to his country. He pointed out that the Tanzanian school system was currently in the process of revising completely its curricula in order to bring them more effectively into the context of rural life. There was an explicit political commitment to effect such a change in the education system. Mr. Jamal said he would inform his Government of the World Bank's interest in considering such a pilot project in education in Tanzania.

L.E. Christoffersen

resident has seen

Headquarters:
Washington, D.C. 20433, U.S.A.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION



Permanent Mission in Eastern Africa
Uniafric House - Koinange Street at Sadler Lane - Nairobi, Kenya
P.O. Box 30577 - Telephone 23421 - Cable Address : INTBAFRAD



Letter No. 72

January 30, 1970

Mr. Leif Christoffersen
Personal Assistant to the President
International Bank for Reconstruction
and Development
Washington, D.C. 20433

Dear Leif:

I am attaching a paper which I dictated last weekend containing salient points raised during Mr. McNamara's visit to East Africa.

As you will note I have tried to cover the more important points made by the various Government officials and other people Mr. McNamara met at which I was present - in particular when such points were not covered in the documents handed to us in support of their words - plus some factual information they supplied. I have not given, of course, Mr. McNamara's own reaction - unless he made certain commitments or promises (of which there are only a few examples). I have also refrained from going into the details of matters which although rather extensively discussed at various meetings do not seem to need much elaboration at this stage, such as the railway loan problem, - which appears to be solved now - and the location of industry within the E.A. Community, which will no doubt be looked into in detail by the forthcoming industrial mission to East Africa. I did not put in anything about the Murchison Falls project either because I was not present at most of what was said on this subject in Uganda. I hope that this record, put together in rather a hurry, will be of some use to Mr. McNamara. Please let me know if there is anything else that he might want me to do on this score.

I now plan to arrive in Washington on February the 15th and will give you a call soon after my arrival if only to hear how your unexpected trip to Norway for such sad reasons worked out.

All the best.

RECEIVED Yours sincerely,

1970 FEB -3 AM 1:32

Willem Brakel
Willem Brakel

c.c. Mr. Lejeune

SECTION
COMMUNICATIONS

President has seen

*Mr McNamara
to see
see 2/4*

OFFICE MEMORANDUM

TO: Files

DATE: January 28, 1970

FROM: W. Brakel

SUBJECT: Salient Points Raised During Mr. McNamara's
Visit to East Africa - January 7-18, 1970I. TANZANIA

1. Mr. Bomani, Minister of Planning, while discussing Tanzania's new Five Year Plan and noting Dar-es-Salaam's doubling of population in the last 7 years, stressed the Plan's emphasis on regional planning, rural development and the need to diversify agriculture particularly away from sisal). He emphasized the problems which Tanzania has faced and will continue to face in project preparation and asked for a strengthening of PMEA so that its staff could spend more time in each of the countries it serves; this might also help speed up the work on such slow moving but vital projects as further livestock development. He asked whether IFC policies could be changed so as to enable it to finance publicly owned enterprises including Tanzania's parastatal organizations (answer: no; this would require a change of charter; however Bank/IDA is fully prepared to help in appropriate cases). He mentioned Tanzania's substantial long term hydro power potential - the Stiegler's Gorge project (see attached memo for Mr. McNamara by the National Water Research Council of Tanzania) the potential capacity of which is many times Tanzania's present installed capacity of some 100 MW; demand for electricity in Tanzania is rising at some 10 percent a year. As to the East African Community he thought it to be desirable for more enterprises to be jointly owned by the three member countries irrespective of their location. Finally he mentioned the need for - and Mr. McNamara underlined the Bank's active interest in - a timely and thorough study of the expansion requirements of the port at Dar-es-Salaam so that when the Tan-Zam railway will be ready (expected around 1976) the port will have sufficient capacity to deal with the expected manifold increase in traffic. (This subject was brought up in several other discussions; some more details on it are contained under point II 2(d)).
2. Mr. Jamal, Minister of Finance, mentioned that while Tanzania's tax structure had been modernized in a fairly comprehensive way, the tax administration needed further improvement, particularly by better training of personnel. As to agricultural development, he said that in his personal view the NDCA (National Development Credit Agency) should be willing to take more risks and to be more aggressive in its lending to farmers, even if this meant initially that important losses would have to be written off; only in this way would it be possible to help the "amorphous rural masses" to keep pace with developments in other sectors of the economy. He commented on the special problems Tanzania faces in its economic development because of its sheer size, its widely dispersed population (apart from a number of clusters around a few major towns) and the lack of skilled manpower.

3. In discussions during a visit to University College a major item of interest was the startling contrast between the fact that Tanzania is only just starting with the development of agricultural education at the university level (a limited number of agricultural graduates used to come thus far from Makerere University College in Kampala) while they have some 350 law students (out of a total number of some 1,600 degree students). The subsequent visit to the Nordic Centre at Kibiha - an integrated attempt at rural development in the coastal region through a combination of practical farm training, provision of health facilities, secondary education and agricultural extension - also brought out the vital importance of increasing the numbers of well trained staff in agriculture, public health and the like as rapidly as possible, and the need to get away as quickly as possible from academic type high school education not adapted to local requirements (the "Cambridge examination"). An interesting side-light was the report that the experience of the Kibiha education centre showed that it is possible to train an adult to read and write in about 60-120 hours study - during a 3 to 6 months period. Of course constant follow-up - through a library service, etc. - is needed to maintain and strengthen the initially acquired ability over the longer run.
4. During the meeting with President Nyerere and the Economic Committee of the Cabinet (not present were the Minister of Education and the Minister of Urban Development), the major emphasis was on the methods Tanzania intends to use to increase the productivity, employment possibilities and income of her smallholder farmers. The concept of the Ujamaa village was extensively discussed (there are now some 400 of these villages (in which persons live and work together on a cooperative basis who in the past were living dispersed widely over the neighbouring countryside); the vast majority of these villages are in the south of Tanzania where strategic and security reasons have greatly encouraged their establishment). It was explained that the Government is trying to follow a pragmatic approach in developing the Ujamaa concept. It is paying special attention to the building of cooperatives which, if properly managed and provided with adequate credit and marketing facilities, can be quite successful in raising agricultural production particularly in areas where the farmer is used to the growing of cash crops (tobacco in the Tabora region). However, the big bottleneck is to find (and/or train) the managers required by it for large state farms, for cooperatives and cooperative unions, or other forms of centrally supervised agricultural development ("political management is ahead of economic management in Tanzania").
5. The NDC (National Development Corporation) - the organization through which the Government participates, usually by way of a majority interest, in the industrial development of the country - plans to increase its investment, which amounted to Shs. 275 million between 1965-1969, very rapidly. For the next five years an expansion to Shs. 1,200 million in total has been programmed - which amount, however, will most likely be doubled. No IBRD-Group funds are re-

quired at this stage, the Government will provide adequate funds through the development budget. Various processing industries, the expansion of cement production, meat packing, several wood working factories and the mining of gems^{1/} will be considered; an expensive plant to produce high quality pulp out of sisal (for export) is also on the list. It was hoped in several cases to attract foreign co-investors to provide not only capital but also technical know-how and management skills. In its financial operations NDC is working together closely with the National Bank of Commerce, which in 1957 created a department for extending medium term credit to industry - up to 5 years - (this department very recently had been given authority to extend long term loans up to 10 years with 3 years of grace as well). Total lending thus far by the National Bank of Commerce on medium and long term has been Shs. 99 million; they expect a future rate of lending of Shs.150 million per year. NDC also cooperates in joint lending operations with the Development Finance Company of Tanzania - in which Tanzanian, British, German and Dutch interests are involved - as well as with the East African Development Bank.

6. In subsequent talks with the Director General of the Bank of Tanzania (the Central Bank) as well as with the Director of the National Bank of Commerce, the opinion was expressed that Tanzania would need a new development finance institution so as to form an appropriate channel for future IBRD/IFC financial help to Tanzania's industrial development process.
7. As regards tourism, a rather ambitious investment plan, to be co-ordinated by the newly created Tanzania Tourist Corporation has been drawn up involving financing of hotels, lodges, access roads and other elements of infrastructure. AID has been asked to finance a master plan for the development of tourism in Tanzania to be carried out by Arthur Little at a total cost of about Shs. 1 million. This master plan is urgently needed in order to assess priorities and thus to provide guidelines for the rather heavy investment spending which is planned for this vital area. Mr. McNamara stressed that the seeking of finance for such an essential study should not lead to any delays; if necessary the Government should be able to supply the resources for the study themselves. Mr. McNamara also mentioned that IBRD would be pleased to see whether any suggestions can be made to provide the Tanzania Tourist Corporation with a well qualified specialist in tourist development (not necessarily an economist).
8. Discussions with Mr. Bryceson, Minister of Agriculture, and with members of his staff and representatives of various parastatal agricultural organizations brought out that the idea of raising agricultural production and income of smallholders through the

^{1/} A full scale mineral survey had just been completed by a USSR team.

Ujamaa concept is still lacking appropriate quantification and a practical operational approach. Agricultural credit in Tanzania appears to be most inadequate. The figure of Shs. 10 million per year (presumably excluding short term lending of another Shs. 10 million per year and also excluding lending to farmers by the National Bank of Commerce) was mentioned but not fully substantiated. It was noted that finance was not the only constraint; sound supporting services (research, extension, marketing) were usually in very limited supply too, due to a general lack of properly trained staff. Part of the problem was also the widely dispersed population and the land tenure system which is often based on tribal ownership. Even cash crops are to a large extent produced on small farms of some 5 to 10 acres. Large estates exist only in sisal (about 100% all state farms now) and wheat (70%), in cotton there are no large farms at all, in coffee some 20%, and while in tea the bulk of produce still comes from large estates, the number of small-holder growers is increasing rapidly.

II. EAST AFRICAN COMMUNITY

1. During the working dinner with the three E.A. Community Ministers a number of fundamental issues were discussed. They included such items as the need for a quick approval of the proposed railway loan, the question of allocation of industries as between the member states and related issues about the introduction of tariffs, industrial licensing, etc., and the administrative framework to deal with problems arising therefrom, particularly if infant protection is required for industries which require the whole E.A. market in order to be economical. It became clear that the Bank's proposed industrial mission to the Community and the three E.A. countries is not only much needed but is now also being genuinely welcomed by the Community. The urgent need for the Community to have its own office and housing space was discussed as well. Present requirements are for some 500 employees which will increase to about 800 within the next 5 years or so. The Community has a construction plan which would cost about \$17 million of which some \$6-8 million for the central office building. The Community has been authorized to contribute some \$2 million from E.A. funds; the rest will have to come from outside sources. Minister Ouko said he was making a trip to North America beginning the next day to discuss possibilities of financial assistance from Canada and the U.S. Mr. McNamara asked him, in view of the great importance of this matter to the Community, to pass by the Bank in Washington on his way back so as to inform us of the results of his trip. The shortage of highly qualified staff for the Community supported by capable foreign advisors was also stressed during the discussion. It was mentioned that the Community, which has a total of fixed assets of an estimated \$3 billion, is by far the biggest employer in E.A. employing altogether some 200,000 people.

2. In subsequent meetings with the Secretary General of the Community and with the Chairmen and Director Generals of the E.A. Harbours Corporation, E.A. Railways Corporation, E.A. Posts & Telecommunications Corporation, the East African Development Bank and the E.A. Airlines Corporation, the following major points were raised:
- (a) The need for training of the Community's senior staff particularly economists; the UNDP has been asked to assist in this.
 - (b) the chances to expand the Common Market to other countries (Zambia, Ethiopia, Somalia, Burundi) are furthest advanced in the case of Zambia; with Ethiopia there are some difficulties particularly since they do not seem to be interested in a possible integration of their "common services"; while with respect to Somalia the situation is still quite uncertain.
 - (c) The Community's present financial needs for covering their recurrent expenditures are lower than the revenue the Community gets from that part of the tax income which is automatically allocated to them. Last year the Community returned Shs.18 million to the three Governments because of this. Capital requirements cannot be met out of the Community's current income; they require special allocation of funds for each individual purpose.
 - (d) The Harbours Corporation expects that 10 additional deep water berths (there are 8 now) will be needed to cope with the expected expansion in cargo handling after the completion of the Tan-Zam railway. Figures of up to 5 million tons ($2\frac{1}{2}$ million tons each way) were mentioned in this connection. The total cost of such an expansion needed can be roughly estimated at between \$45-55 million of which 50% would be in foreign exchange. The Corporation is trying to find suitable consultants for a study which should be ready by mid-1971 to allow for a subsequent period of construction of 3 to 5 years. The originally planned UNDP study, in which the African Development Bank was supposed to be executing agency, was conceived before the Tan-Zam railway complication arose so that the whole matter of how to finance the study will have to be reconsidered. Mr. McNamara remarked that the Bank has an active interest in the carrying out of the study in time because of its past and possible future lendings to the E.A. Harbours Corporation.
 - (e) The E.A. Posts and Telecommunications Corporation stressed the fact that despite their training efforts they still require many experts from abroad which in some cases (but not if it concerns British or Swedish technical assistance which includes "topping up" arrangements) can lead to difficulties

because of the high level of salaries to be paid. They also referred to the need for maintaining some degree of standardization which the Bank should take into account in applying the rule of international competitive bidding.

- (f) Mr. Simba of the E.A. Development Bank said that his Bank for the next 2 years or so was not in need of financial assistance from the World Bank Group. Technical assistance, which the IBRD had already given quite liberally was another matter. At the moment he particularly needed a legal expert - Mr. Webb^{1/}. The E.A.D.B. is not allowed to finance tourism or infrastructure or to lend to other financial institutions, but has to confine itself to lend to manufacturing industry, including agricultural processing etc. Total commitments during 1969 were almost Shs. 37 million; for 1970 a similar amount or a little more is expected. By the end of 1970 the results of a study on industrial development requirements and possibilities in the three countries of E.A., which E.A.D.B. has initiated, should be ready, which should provide a basis for setting up a long term lending program and for discussions with the World Bank Group about possible assistance from their side. The present professional staff of E.A.D.B. consists of 6 expatriates plus 7 local officials.
- (g) The E.A. Airlines Corporation are not planning any large scale expansion program. They wish to consolidate their new lines to HongKong and Copenhagen. They have been discussing the possibilities of association with Zambian Airlines. Apparently Ethiopia is not interested in such an association. They have a total of 4,200 employees which is considerably more than either of the two other companies. The need for the establishment of a training centre at a cost of some £250,000 was mentioned. It was made clear that if only because of the relative small amount involved this was a matter for UNDP rather than IBRD consideration.

III. UGANDA

1. In the meeting with Ministers dealing with economic development matters and chaired by the Vice-President of Uganda, the Minister of Planning and Economic Development mentioned the long time it took, in his view, to prepare projects and subsequently for the Bank to take action on them (for example the agricultural credit project for which the first request had been made in 1964/65 and

^{1/} Mr. Webb's secondment for 6 months to the E.A.D.B. has meanwhile been arranged; he is due to start around March 25, 1970.

on which no final decision has yet been reached). He would appreciate the Bank's Regional Office to be considerably strengthened and to be given certain powers of decision in order to help expedite matters. He also asked about possibilities for local currency financing. The Minister of Agriculture and Forestry emphasized the need for training an efficient extension service. The output of the country's two agricultural colleges as well as of agricultural specialists from Makerere University should be increased (in 1969 there had been 91 "diplomates" in agriculture plus 12 B.Sc's.). The extension service now consists largely of Ugandans but is still much too thinly spread, while in areas such as research Uganda is still virtually totally dependent on expatriates, largely British ("some diversification seems desirable"). He also mentioned the need for expanding quarantine facilities for importing plant materials; these are now concentrated in the E.A. Agricultural Research Institute in Kenya; the establishment of national quarantine facilities may have to be considered. Subsequently the Minister talked for some length about the desirability for the Bank to agree to the abolition of the 7 cts. levy on tea growers to pay for the services supplied to them by the Uganda Tea Growers Corporation^{1/}. (Mr. McNamara made it clear that abolition of the 7 cts. levy by itself would not solve anything because the cost of the services of the Tea Growers Corporation would have to be met somehow; it would only shift the burden; not remove it). The Minister also said that Uganda was active in the field of rural development by promoting farm cooperatives, by providing amenities to rural areas (schools, electricity, etc.), by giving credit to farmers who occupy plots of land cleared for cultivation by the Government, etc.

2. The Vice-President stressed the importance of beef ranching and dairy development. A livestock development project is now being prepared at a total cost of \$13.9 million of which 27.5% would be foreign exchange, for submission to the Bank Group. If implemented it should achieve an increase in annual production of \$3.85 million.
3. The Minister of Works thought the Bank to be too rigid in its standards for road lendings. The Uganda authorities should be left more freedom in selecting those roads which they consider to have high priority even if other than purely economic yardsticks are applied. As an example he mentioned the bituminization of a certain stretch of road which the Bank had thought to be of insufficient priority. He also stressed the importance of investment in feeder roads.

^{1/} This subject was brought up several times at subsequent meetings in Uganda. In the course of the discussions it became evident that, partly because of relatively low quality, Uganda tea has difficulty to stay competitive in the world markets. The growers receive a subsidy of 10 cts. per lb. of green leaf (originally introduced because of the devaluation of the British pound); at the same time they pay a levy of 7 cts. per lb. to the Uganda Tea Growers Corporation.

4. The Minister of Marketing and Cooperatives mentioned Uganda's problems in tea and coffee growing due to the fall in world market prices. Diversification to other products is required. Thus far this has been particularly successful with respect to tobacco; the present export of Uganda of flue-cured tobacco is about one million kilograms; the target for 1980 is 4 million kilograms. At the moment an expansion of the tobacco area by 4,700 acres is planned for 4,000 additional smallholders at an estimated cost of some \$8 million. Exports of cotton lint are charged with a tax while the prices to the growers - which apparently in the past had included an amount of subsidy from a price equalization fund which has now depleted - are too low to provide them with much incentive.
5. The Minister of Industry commented on the respectable growth achieved in industry development at the rate of 10% in recent years (even though this rate was still somewhat below the planned target of 12.5% per year). The much larger E.A. Community market can be helpful in promoting further expansion which will have to go beyond the limited domestic market. Proper study of the possibilities there is needed, however; otherwise, as in the case of textiles, over-investment may occur in each of the three countries. UNIDO has been asked to look into the textile manufacturing situation; the results of this work may provide guidance for other industries as well. Uganda encourages private enterprises in appropriate cases but where the profit motive does not work adequately the state takes the lead through UDC. The Minister mentioned the need for World Bank Group financial assistance to the Development Finance Company of Uganda in which Britain and Germany already participate.
6. The Minister of Education asked whether it was possible for the Bank to limit tendering for furniture, under the first education credit, to Ugandan firms. He also confirmed that the Cambridge examination is now being replaced by an East African Certificate of Examination under the auspices of the E.A. Examination Council^{1/}.
7. In subsequent discussions with the management of UDC, it was ascertained that UDC has majority shareholdings (to an amount of Shs. 157 million) in 35 "subsidiary" companies, in addition it holds minority shareholdings in 20 "associated" companies (to an amount of Shs. 30 million). The turnover of these companies in 1968 was Shs. 400 million; their profit before taxation was Shs. 43 million.

^{1/} He also gave some figures on the percentage of school age population going to various types of schools, as did education officials we saw in Tanzania and Kenya. I am enclosing a paper produced in PMEA before Mr. McNamara's visit which gives some details based on data available as a result of the work of our education missions. Since it covers all three countries it might be of interest to Mr. McNamara.

Their total fixed assets amounted to Shs. 540 million. UDC's total investments, including Shs. 82 million in loans, now amount to Shs. 269 million. They expect to invest an additional Shs. 123 million during the next 3 years, namely Shs. 49, 53 and 20 million respectively in 1970, 1971 and 1972. UDC prefers ventures jointly with private, including foreign, investors if they can be found. The Development Finance Company of Uganda, which works solely for the private sector and usually invests in medium and smaller size manufacturing industries, while UDC invests with the larger and heavier industries, works together closely with UDC; they have the same chairman. UDC received its latest injection of capital from the Government in 1968; they now need a further injection of loanable funds in which they hope the IBRD Group will participate. At present their debt-equity ratio is 4:1. EDI has helped a great deal in training UDC staff but there is still need for more engineers and accountants including financial analysts. (Mr. McNamara mentioned the planned EDI industrial projects course for E.A. to be held in Nairobi next summer). The Ford Foundation is providing a small team of experts for on-the-job training. The Government has the power to make UDC participate in enterprises against UDC's own judgement but has used this power only very sparingly.

8. Subsequent meetings with representatives of agricultural marketing and production boards, in the presence of the Permanent Secretary for Agriculture, brought out the following main points:
- (a) There are plans to increase cotton production from 445,000 bales (of 185 kg) - the highest level achieved in the recent past - to 575,000 bales in early 1970 and to 1 million bales in 1980. Primarily by increasing productivity through such means as the use of new varieties and modern inputs.
 - (b) Coffee production will have to be further curtailed if the international coffee agreement is renewed in 1970. The target is to uproot 10,000 acres which will have to be changed to other agricultural crops including livestock. In addition some areas now under Robusta coffee should be changed to growing Arabica which gives lower yields and higher prices.
 - (c) The Produce Marketing Board which has thus far marketed only tobacco is now taking over a great number of other agricultural products such as maize, onions, groundnuts, chillies, potatoes, etc., plus all produce from the cooperative unions. Experience still has to be built up and no decisions have yet been taken regarding basic marketing and price policies, the possibility of building up price equalization funds, etc.
 - (d) The total amount of credit for productive purposes to co-operatives is Shs. 16 million; in addition commercial banks make available short term production credits to private farmers.

- (e) The average size of farm holdings in Uganda is about 9 acres.
- (f) As to dairy, at the moment Uganda is a net importer from Kenya. There is therefore scope for a substantial increase in dairy production estimated to require some 700 new farms of varying sizes. A project is being prepared which, it is hoped, the World Bank Group will help finance.
9. In a meeting with private business, no clear cut information could be obtained as to what the Government sees as to the role for private and Government owned enterprise respectively; (the matter was the subject of "considerable political rethinking"). The need for better management training was stressed. The question was raised whether "soft" loans made to the Government could be passed on in that form to private industries. The problems arising from the high freight rates imposed by IATA on air transport of high value products to other African countries were briefly discussed. Production of certain agricultural commodities would benefit particularly from a more competitive, less discriminatory rate system. There was also some discussion on the high degree of protection on textiles (it was said that Uganda produced fine yarns which were then used domestically for making relatively coarse fabrics) and of the relatively moderate degree of protection (15 to 33%) for most other industrial products. The lack for any kind of capital market was deplored. Cooperative taxes in East Africa as a whole are relatively moderate (40%).
10. In a meeting at Makerere University the question was raised whether the next Bank project could include help to the University in improving its services for agriculture (including veterinary services and forestry) and business administration. At the same time it was explained that for the next few years a certain reduction in the number of agricultural graduates was expected because the University would now be catering for the needs of Uganda only rather than, as in the past, for those of the whole of East Africa. Some 40 to 60 agricultural graduates per year are needed according to the Government's manpower calculations (on the basis of the FAO Indicative Food World Plan some 100 graduates per year would reportedly be required). The supply of qualified secondary school leavers is large enough now to make possible an intake of at least 80 per year. Two new departments in technology are being set up: one for electro mechanics and one for civil engineering, including architecture. In Uganda everyone qualified is offered fully free education in the University; 90% accepts. The University has been involved in some studies related to the need for and the promotion of rural development which is urgent since urban growth in Uganda now amount to about 7% per year.

IV. KENYA

1. The meeting with the various Ministers concerned with economic development, under the chairmanship of Mr. Kibaki, Minister of Finance, started with a brief discussion of some of the Bank's general policies such as the present interest rate, the possibility of increasing Bank Group financing for local currency expenditures, the need to maintain a high level of IDA type assistance to credit-worthy but still relatively poor countries such as Kenya and the desirability to strengthen the Nairobi Office so as to discuss and resolve problems during the project preparation stage rather than once the loan or credit is made.
2. The meeting subsequently went into some aspects of the Bank's current lending operations in Kenya, such as the Bank's emphasis on technical secondary education as opposed to general secondary education and Kenya's intention to include some technical subjects in general secondary schools; the status of Nairobi water supply project; the need for World Bank assistance in determining further steps with regard to the Tana River irrigation scheme and the desirability for the World Bank Group to provide finance for industrial development and for building up the infrastructure required for tourism.
3. The meeting then went into some more fundamental development problems, particularly that of under and unemployment which is made worse by the rapid past expansion of primary school education (under the Harambee system): 160,000 pupils finished primary school last year of which 20% went to secondary schools. The need for adequate vocational and technical training and the great urgency of sound rural development aimed at improving rural incomes and employment and at the same time providing more of the basic services such as roads, electricity, housing and water supply to rural areas was discussed in some detail. The importance of agricultural credit and related inputs in particular to the smallholder farms (averaging about 10 acres in Kenya) preferably at terms of interest lower than the present rate (between 7 to 10%) was stressed as well by the Government, as was the need for Bank financial assistance for road maintenance in order to enable the Government to divert some of its road building funds to the development of farm to market roads in the rural areas.
4. The Minister of Agriculture mentioned the long term importance of large scale irrigation schemes for which the Tana River produced by far the greatest potential. Ultimately these schemes might give employment to 300,000 farmers plus another 300,000 engaged in ancillary activities. He would appreciate it greatly if a World Bank team could come out to Kenya to advise the Government on the next phase of the Tana River development scheme which presumably would be the establishment of a 10,000 acre pilot scheme in order to follow-up on the much smaller (3,000 acres) scheme which had been managed by ILACO (a Dutch consultant firm), and to help prepare appropriate terms of reference for this next phase.

5. The Minister of Planning stressed the need to select priorities in the right way taking into account real economic costs and benefits. From this view point rural development seemed to be of higher order of priority than say housing or perhaps even at this stage irrigation. He commented on the crudeness of manpower estimates arrived at by various surveys; however, there was no doubt that within 5 years time there would be a serious problem of unemployment among university-educated people unless drastic changes in the curriculum are made right now.
6. In the industrial field the Government plans to be a partner in certain large scale ventures such as Broderick Falls. For the rest, private business will continue to be encouraged. It is hoped that the Bank Group can help in the financing of Kenya's industrialization efforts through lending to an appropriate development financing institution (ICDC, presumably).
7. The problem of allocation of industries within the three countries of the E.A. Community still is a difficult problem. There is need to strengthen in particular those units of the Community's Secretariat which deal with such matters as licensing of industry and tariff protection, in order to make it possible for the Community to have an independent and objective view point of its own on such politically sensitive matters. As to the expansion of the Community with new members, each of the countries involved still has to do a good deal of homework; Ethiopia is coming back from her original idea of applying for full membership; Burundi decided from the start to ask for association rather than membership; Somalia has asked the U.N. Economic Commission for Africa for help in studying the implications of various methods of joining the Community; Zambia's case appears to be furthest advanced.
8. In subsequent discussions with the Nairobi City Council it was pointed out that the labour force in Nairobi increases at 10% each year. The present labour force is about 205,000 of which some 60,000 (30%) are unemployed. About the same number of people are living in slum conditions. Their number can be expected to rise to some 175,000 by 1980 and to 1 million by year 2000 unless drastic measures are taken.
9. In the meeting with the Farmers Union the need for lenient credit conditions for African farmers who have taken over previous European farms was particularly stressed. Longer period of grace are needed in order to give the new farmers the chance to overcome teething problems. In addition extension services at a much higher density than ~~those~~ existing in the past are required (as an example the German team at Kitale of 9 people for 100 farms was mentioned). Labour-intensive projects including irrigation should be stressed for future development which seem to have especially good prospects in livestock, cotton, oil seeds and horticulture. A great deal of research in new varieties will be required. Something should also be done with respect to/disincentives provided by expensive inputs (such as the high cost of fuel) in agricultural*production.

/remove the

8 January, 1970

For Mr. MacNamara:

Memo on Stiegler's Gorge Project (under planning)

by National Water Resources Council
Tanzania Government

Purpose: Power, Irrigation, Flood Control
(Navigation, Fisheries, Tourism, etc.)

Location of site: 200 Km south-west of Dar es Salaam

Power Possibility:

Firm Output	490 x 10 ³ Kw
Installed Capacity	600 x 10 ³ Kw
Generated Energy	4.8 x 10 ⁹ Kwh.
Construction cost	127 x 10 ⁶ US \$ (900 x 10 ⁶ Shillings)
Unit cost (at supply end)	2.8 mills/Kwh (2.0 cents/Kwh) 2.1 mills/Kwh for power-oriented industry 5 mills/Kw for general demand

Irrigation Possibility: 80,000 ha by flood control

Feasibility Studies: 3 - 4 years (perhaps by UNDP and Government)
1.5 x 10⁶US \$ (10 x 10⁶ Shillings)

Definite Design & Finance: 2 years

Construction Period: 7 years for first commencement

Expected Completion: 1984/85 for Stage 1 (80 x 10³Kw)

Reference:

(Planned) Great Ruaha Project (Tanzania)

Total installed capacity	200 x 10 ³ Kw
Generated energy	1.3 x 10 ⁹ Kwh
Construction cost	69 x 10 ⁶ US \$ (482 x 10 ⁶ Shillings)
	{ Stage 1 - 100 x 10 ³ Kw 49 x 10 ⁶ US \$ }
	{ Stage 2 & 3 - 200 x 10 ³ Kw 20 x 10 ⁶ US \$ }
Unit cost	10 mills/Kwh at Stage 1 4.7 - 3.9 mills/Kwh at later stage
Expected completion	1974 - Stage 1 1980 - Stage 2 1983 - Stage 3

PERMANENT MISSION IN EASTERN AFRICA

BASIC DATA

GENERAL	KENYA	TANZANIA	UGANDA
Area	224,960 square miles	361,800 square miles	92,500 square miles
Total Population (K-1968) (T-1967)	10.8 million	12.2 million	7.9 million
Growth rate	3.3% per annum	3% per annum	2.5% per annum
Density	45 per square mile	34 per square mile	85 per square mile
Urban Population	10% of total population <i>(towns of more than 2,000)</i>	4.5% of total population	4.5% of total population
Gross Domestic Product	401.5 million £	285 million £	250 million £
Distribution of GDP by sector			
Agriculture	36.8%	53.5%	57.7%
Commerce and Transport (U) Commerce, Storage, Communications (K)	14.1%	N.A.	11.0%
Manufacturing and Mining	10.3%	7.6%	17.3%
Other	38.8%		14.0%
Annual average rate of growth of GPD in real terms	5.3%	5.5%	2.8%
GDP per capita	US\$ 113	US\$ 66	US\$ 88
Central Government total revenue (domestic sources) as % of GDP	20.1%	18.3%	22.0%
Total public sector expenditure as % of GDP	23.5%	18.0%	22.9%

BASIC DATA - EDUCATION

EDUCATION	KENYA	TANZANIA	UGANDA
Population aged 6 - 15	2,839,000	3,130,000	2,240,000
Literacy rate	30%	N.A.	N.A.
Primary school enrollment as percentage of relevant age group	65%	49.5%	45%
Secondary school enrollment as a percentage of relevant age group	9%	2.5%	2.7%
Total expenditure on education as a percentage of GDP	6.3%	5.3%	5.4%
Education expenditure per capita	US\$ 7.1	US\$ 3.5 (1/3)	US\$ 4.7 ² / ₃
Expenditure on education as percentage of Central Government expenditures	22%	17%	25.1%
<u>Level of Education - Distribution of Student Enrollment</u>			
Primary Education	1,210,000 (91%)	753,000 (96%)	632,000 (94%)
Secondary/Technical	105,000 (8%)	28,150 (3.4%)	33,300 (5%)
Higher Education (excluding teacher training)	4,900 (0.4%)	1,330 (0.2%)	1,700 (0.3%)
Teacher Training	7,340 (0.6%)	3,250 (0.4%)	4,300 (0.7%)
<u>Level of Education - Recurrent Expenditure on Education</u>			
Primary	56%	59%	52.8%
Secondary/Technical	33%	23.8%	19.3%
Higher Education	6%	10.6%	10.4%
Teacher Training	5%	6.6%	17.5%

4

OFFICE MEMORANDUM

CONFIDENTIAL

TO: Memorandum for the Record

FROM: Michael L. Lejeune

SUBJECT: TANZANIA - Meeting with Mr. Jamal at Annual Meeting - October 1

DATE: October 13, 1971

DECLASSIFIED

JUN 20 2013

WBG ARCHIVES

1. During the Annual Meeting Mr. McNamara met with Mr. Jamal, Tanzanian Minister for Finance, at the latter's request. Mr. Knapp and I were present. The purpose of Mr. Jamal's visit appeared to be to acquaint Mr. McNamara with the political background to the present disruptions in the working of the East African Community.
2. The conversation began, however, with reference to the great interest in Africa and on the part of the Bank in the question of rural development. Mr. Jamal reported that the development of the Ujamaa Villages in Tanzania was progressing rapidly. Mr. McNamara commented that he was glad to hear that things are now moving, because when he had been in Tanzania President Nyerere had said that while the idea of the Ujamaa Village Program was soundly based, the idea had not at that time been converted into tangible results. This led to Mr. McNamara's asking Mr. Jamal what progress the Mainland Chinese had made in rural development. Mr. Jamal said that on his visit to China he had not been able to see very much but what he had seen left him with the impression that the Chinese had indeed made substantial progress. He said he was glad that it now looked as if contact between Mainland China and the U.S. and other countries of the West would be opened up. Mr. McNamara said that this was an important development and it was another illustration that progress could be made if countries which had real and fundamental problems and disagreements could compartmentalize them and work on them separately without having the whole relationship frozen.
3. Mr. Jamal then explained the difficulties that Tanzania had with respect to the East African Community. He said that President Nyerere was against coups, and every time one took place in Africa he was heartsore and concerned. He was particularly concerned when a coup took place next door in Uganda. Moreover, in President Nyerere's mind each of the three countries had given part of its sovereignty to the East African Community, and so when a coup took place in one of them it was, as it were, imported into the Community itself and tainted not only the one country but the other two as well. This had led President Nyerere to be particularly reluctant to accept in the Community and its institutions the evidences of illegality inherent in the coup in Uganda.
4. Secondly, General Amin's assumption of power in Uganda had seriously affected Tanzania's relations with Great Britain, particularly on the issue of the supply of arms for South Africa. President Nyerere had felt when going to the Commonwealth Conference in Singapore that he had built a common front with Zambia, Kenya and Uganda, and that collectively these four countries had been able to exercise some

President has seen

October 13, 1971

influence on the British, but immediately after the meeting, when he had assumed power, General Amin had adopted a different policy and had undermined the unity President Nyerere had built up. This had added to the political difficulty of accepting General Amin and his regime.

5. Mr. Jamal said that he personally had been involved in the creation of the Community from the very beginning. Nothing distressed him more than the possibility that the Community might be endangered as a result of the political events in Uganda. He would continue to work towards preserving the Community. He felt sure that the three East African Governments would in due course reach accommodations which would permit it to function fully. He and the Ministers of Finance of Kenya and Uganda had had discussions during the Annual Meeting aimed at finding ways to overcome at least some of the difficulties.

6. Mr. McNamara expressed his concern not only for the well-being of the Community and for the three East African countries but also his concern that such an important example of international cooperation in the economic field should seem to waver. The trend in Africa should be towards cooperation and integration, not away from it. He was glad to hear that the three East African Governments were working together to solve some of the problems. He hoped that the Tanzanian Government could see its way to compartmentalize some of its problems vis-a-vis Uganda and the Community and also vis-a-vis the U.K., and that all progress in improving relations would not be stalled because of unresolved, real, important and understandable disagreements.

7. Mr. Jamal ended by saying (somewhat cryptically) that he knew that Mr. McNamara would know when and how to lend his help to solving the problems of the Community, but that he, Mr. Jamal, had nothing specific in mind.

MLLejeune:neb/ck



cc: Mr. McNamara's Office (2)
Mr. Knapp (cleared with)
Mr. Chadenet
Mr. Husain
Mr. Collier
Mr. Hornstein

5

OFFICE MEMORANDUM

TO: Files

DATE: September 9, 1975

FROM: Stanley Please

SUBJECT: Tanzania -- Meeting Between Mr. Msuya (Minister of Finance)
and Mr. McNamara, September 4, 1975

1. Mr. McNamara met with Mr. Msuya on September 4, 1975. Dr. Malima (Permanent Secretary, Ministry of Finance) accompanied Mr. Msuya together with Mr. Thahani (Alternate Executive Director). Messrs. Knapp, Husain, Burmester and Please also attended.
2. Mr. McNamara emphasized that at the policy level there was an identity of views between the Government of Tanzania and the Bank on the priorities of development policy. The Bank had, in fact, learned a great deal from the Tanzanian experience particularly in the area of rural development which it hoped to pass on to other countries.
3. However, Mr. McNamara expressed his very serious concern over the delays in project implementation in Tanzania. He fully recognized the problems involved in speeding up disbursements and that disbursements as such were of far less importance than getting projects implemented more quickly and effectively. This was clearly of most direct importance to Tanzania but it was also important to recognize that the Bank had difficulty in continuing to present projects to the Board whilst the implementation of previous projects was so much behind schedule.
4. Mr. Msuya accepted the points made by Mr. McNamara and said that project delays were of major concern to the Government. For this reason he wished to request Mr. McNamara to consider strengthening the Bank office in Dar es Salaam beyond the present one-man resident representative. He considered that the Bank has a vital role to play in ensuring that project implementation is improved and that this role could be made effective not only through the secondment of advisors, ADS, etc., but also through the Bank's own direct involvement from its resident office. Mr. McNamara assured Mr. Msuya that the Bank would fully examine the desirability of expanding the Bank's field office but that he could not anticipate the outcome of this examination. Field offices were costly to operate and additional costs had clearly to be seen against alternatives particularly in a time of severe budget constraints facing the Bank.
5. Mr. Msuya outlined the very difficult economic problems facing a country such as Tanzania in implementing its development program. The Government was confident that it could continue to deal effectively with the internal problems of development but it had no means of overcoming the external problems in the short run except by additional borrowing. He illustrated these problems by reference to the catastrophic fall in the price of sisal during the course of one year. In view of these external problems he requested Mr. McNamara to consider a second program loan to Tanzania. Mr. McNamara said that he was sure that Mr. Msuya recognized the formal difficulties facing the Bank in expanding its program lending but that each request for such assistance would be considered on its merits. He considered that the actions and programs of the Tanzanian Government warranted such assistance and that there was a "high probability" that it would be accepted but he could not give a definite answer at this time.

September 9, 1975

6. Finally, Mr. Msuya assured Mr. McNamara that Tanzania would do its utmost to ensure the implementation of recent agreements relating to the East African Community. Tanzania was committed to the Community and welcomed the active involvement of the Bank in resolving problems which would otherwise undermine the Community. Mr. McNamara emphasized that the Bank would continue to play whatever part it could in the operation and refashioning of the Community. However, this could only be undertaken if Community debt service obligations were fully met on time. Whilst this was a "technical" problem, failure to deal with it, completely diluted the Bank's more substantive involvement in Community matters.

SPlease/lo

cc: Messrs. McNamara, Knapp, Husain, Loh and Hansen

6

OFFICE MEMORANDUM

TO: Files

FROM: Stanley Please

SUBJECT: TANZANIA - Mr. McNamara's Meeting with Minister for Finance

DATE: November 11, 1976

1. Mr. McNamara met with Mr. Jamal, Minister for Finance, on October 5, 1976. In addition, Mr. Malima, Principal Secretary, Ministry of Finance, Tanzania and Messrs. Knapp, Wapenhans, Mekki, Thahani and Please were present.
2. Mr. McNamara began the meeting by emphasizing the need for governments which have been major beneficiaries of IDA and Bank funds to make known their continuing need for World Bank assistance particularly to those OECD countries with which they have close relationships. In the case of Tanzania, he was particularly anxious that the Government should encourage the U. K. and the Scandinavian Governments in their continuing support for IDA and also that the Government should make known to countries such as the U. S., Germany and Japan, the need for IDA replenishment if the goals of Tanzanian development had any hope of being achieved.
3. Mr. Jamal indicated that he, personally, and the Tanzanian Government, in general, fully recognize the decisive role which the Bank had played in supporting Tanzania's development programs in recent years. He felt that there was an enormous credibility gap which existed between the words and actions of some developed countries and to the extent that this resulted from a failure to realize what governments, such as the Government of Tanzania, were trying to achieve, he would do his best to clear up those misunderstandings whenever the opportunity arose.
4. Mr. Jamal stressed that he considered that Tanzania was embarking on a period of adjustment and consolidation of its past programs and policies particularly as these affect the villages where the majority of the population lived. This consolidation was going to raise difficult problems of village-level management and although the Government had shown that it was willing to make hard decisions to alter the course policies when required, it was going to take many years to build up the village as the central unit of political, social and economic life. Where Mr. Jamal said he had most difficulty at present was in relating these programs and policies for achieving the Government's development objectives to the focus of the IMF. He was struggling to understand the Fund's concerns and to undertake the work required to meet those concerns in order to take advantage of Fund resources but he emphasized the enormous difficulty he had in accepting the present requirements of the Fund. In particular, he could not accept that the Government should do things to please either

the Fund or the Bank. The Government would do things because it recognized the existence of a problem which needed action. As far as financial problems were concerned, since coming back to the Ministry of Finance in November 1975, he had been concerned to ensure that government expenditure was being fully monitored and controlled. To this end he had set in motion major special audits of parastatals, special accounts and other entities in order to provide him with information on the basis of which he would be taking action. However, he considered it foolish to think that action could be taken in advance of such a "stock taking" exercise. Moreover the Government was very conscious of the underlying problem of managerial efficiency in the country and its impact on the financial soundness of parastatals but it had to be recognized that this was a problem which could only be solved in the longer run.

5. Mr. McNamara responded by emphasizing that it would be impossible to proceed with the program credit until agreement with IMF had been reached on the basis of which further Fund resources could be utilized. Moreover he expressed surprise over Mr. Jamal's difficulties in understanding the Fund's requirements because it was his own view that the Fund's management had in recent years become far more aware of the particular difficulties and needs of the developing countries.

6. Mr. McNamara emphasized to Mr. Jamal the need to ensure that the execution of past projects was undertaken as far as possible on schedule because it became difficult to commit more funds when past funds were not being disbursed due to delays in project execution. Mr. Jamal said that he recognized this problem and the Government was taking action to remedy matters. At the same time he had been more concerned by problems relating to the operational efficiency of existing capacity and in delays in creating new capacity for whilst the latter means a one or two year delay in the availability of the incremental production, failure to improve operational efficiency would have a continuing debilitating effect on the economy.

7. Mr. Knapp asked Mr. Jamal if he could just say one or two words on the problem of the East African Community. Mr. Jamal said that it was clear that Railways and Harbours would be regionalized. However, it had come as a complete surprise to his Government when the Kenyan representatives on the Demas Commission had stated in July that they considered that P&T and the Airlines Corporations should also be regionalized. This assertion by the Kenyans raised enormous difficulties for Tanzania because previous capacity, particularly for such things as maintenance, had been established on the basis of a continuation of the Community structure. It was still his Government's hope that the more extreme proposals for decentralization would be reversed and particularly

that sufficient Community activity and responsibilities would be retained to ensure that the dialogue between the countries was maintained.

8. Mr. Jamal invited Mr. McNamara to revisit Tanzania whenever he could spare the time although he recognized that this was unlikely to be during the next year. Mr. McNamara said that he accepted this invitation in principle and would certainly wish to visit projects such as Kigoma, which had commenced since he was previously in the country.

9. It is worth recording in this memo that Mr. Jamal on two or three occasions during his discussion with Mr. McNamara referred to his discussions with Lyle Hansen on major matters of policy which concerned both the Government and the Bank. It was apparent from these allusions to continuing discussions with Lyle Hansen that the Government regarded the resident representative as an adviser on policy matters. It should further be added that these references to the role of the resident representative were completely unsolicited by Bank staff and consequently can be taken to reflect the genuine way in which the Tanzanian Government wishes to utilize our resident office.

SPlease/ebb

cc: Messrs. Wapenhans
H. Adler
Stern
O'Brien
Hansen

MEMORANDUM FOR THE RECORD

Meeting with the Tanzanian Ambassador, Mr. Paul Bomani, June 10, 1977

Present: Messrs. McNamara and Ambassador Bomani

The Ambassador said that he had come to deliver a personal message from President Nyerere to ask for an appointment with Mr. McNamara during President Nyerere's forthcoming visit to the United States. The Ambassador said that the visit was preliminarily planned for August 3-9, 1977. Mr. McNamara said that he could have some difficulty accommodating President Nyerere during this period but that he would try to rearrange his schedule if the Ambassador would let him know President Nyerere's exact plans as soon as possible.

On a question from Mr. McNamara, the Ambassador commented briefly on the Commonwealth meeting in London.

SB
June 13, 1977

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: June 9, 1977

FROM: Stanley Please, Director, EACPI

SUBJECT: TANZANIA - Request for a Meeting by Ambassador Bomani

1. Ambassador Paul Bomani of Tanzania has requested to have a meeting with you to convey a personal message from President Nyerere. He was not in a position to disclose to the staff the general content of the message but indicated that it is of a personal nature and would not require your immediate comment or decision.

2. Mr. Wapenhans visited Tanzania recently and had a fruitful discussion with President Nyerere on a variety of subjects. Attached herewith is a copy of the memorandum dated June 2 from Mr. Wapenhans to you concerning his visit.

3. Since Ambassador Bomani has emphasized that President Nyerere's message is personal, he may not wish to have Regional staff to accompany him during the meeting and I will act accordingly unless you request Regional representation. Please let me know the convenient time for you to meet with Ambassador Bomani so that we can make the necessary arrangements.

Attachment
PCLoh/SPlease/imm

cc: Mr. H. Adler

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara (Thru: Mr. J.B. Knapp) *RM* DATE: June 2, 1977

FROM: Willi A. Wapenhans *Wg*

SUBJECT: TANZANIA - Mission, May 6-12, 1977 and Meeting of the Consultative
Group for East Africa on Tanzania, May 23-25, 1977

1. I visited Tanzania from May 6 to May 12. The timing of the visit (my first) was opportune in that it enabled me to gather impressions and exchange views with senior Government officials in advance of the Meeting of the Consultative Group on Tanzania which was held last week. Although my trip was short I was able to make a quick field trip and obtain a glimpse of conditions in the rural sector at first-hand. Some of the major issues which arose as well as some of my impressions are summarized below.

General

2. Tanzania's overall commitment to development from the President on down is very evident. Furthermore, the officials whom I met displayed a marked degree of pragmatism in the determination of the means to achieve their goals. Although this flexibility clearly does not extend to all levels of the bureaucracy, there is a notable degree of awareness and willingness to discuss development problems at the higher levels. For example, my meeting with the President consisted of an open and candid exchange of views on a wide variety of current development issues facing Tanzania.

3. I took the opportunity to raise with the President a number of major issues which have arisen during the course of our project and economic work. These included the threats to villagization imposed by overcultivation and overgrazing and the consequent need to experiment with satellite villages and other mechanisms designed to introduce better rotational practices and to cultivate presently unused land; the poor coordination between the districts, regions and the central ministries which is contributing to the present inadequacies in the delivery of services to the villagers; the need to selectively liberalize imports to help increase current low levels of capacity utilization in the industrial sector and the threats imposed by the current and planned recourse to excessive deficit financing. The President responded to most of these points. He acknowledged the problems relating to overcultivation and overgrazing but noted that farmers, for the first time, now appeared to be taking a serious interest in soil conservation. He believed that the present system of cattle herding by villagers would not work and that a solution had to be found. While he was confident that the new villagers would produce enough food for themselves he was

uncertain whether they would grow a sufficient surplus for the cities. The President, therefore, underlined his concern to avoid large urban populations and the need to keep the bulk of the people on the land. In this connection he noted that adequate producer prices and improved access to rural services were essential. He agreed that imports would have to be liberalized but noted that foreign exchange availability posed severe limits. The President also acknowledged that, in order to avoid rapid inflation which would unsettle the population and jeopardize incentive prices for agricultural production, there was a need to avoid excessive deficit financing. He emphasized, however, the pressing needs for maintenance and development expenditures and the consequent need for Tanzania to walk a "budgetary tightrope." He concluded by expressing his thanks for World Bank assistance noting that while the Bank was regarded in some quarters as a "conservative" institution, it had fully understood Tanzania's development goals and problems.

East African Community

4. While the three Partner States seem to be as far away as ever from taking mutually agreed and orderly steps to reorganize the Community it is apparent that the Tanzanian position with regard to the EAC has moved somewhat over the last few weeks. I was informed that Tanzania is taking steps to unilaterally establish independent Tanzanian Corporations for both Harbours and Railways. It is expected that legislation with respect to the new institutions will be enacted in July. Although no formal decisions appear to have yet been taken, similar action with regard to telecommunications is also a distinct possibility. It is likely that Tanzania will not "nationalize" the assets of the Community Corporations. Rather, it is expected that the new "national" corporations will operate the assets of the EAC Corporations in Tanzania on behalf of, and under terms of agreement with, a Public Receiver to whom these assets are being entrusted. (In light of these developments it is likely that Kenya will also now proceed to take de jure action to establish independent "Kenya" corporations.) The Tanzanians have already made it clear that they will request and expect Bank assistance for the new Tanzanian Corporations and we may expect similar requests from the Kenyan authorities. Mr. Jamal, now Minister for Transport and Communications, also indicated that he would seek Bank staff assistance in conducting needed transport studies, e.g., an evaluation of the costs and benefits of integrating the operation of Tazara with the East African railway system including gauge standardization. If and when these requests materialize it will clearly be most important that we are ready to respond in a constructive and effective manner.

5. While we have received assurances from both the Kenyan and Tanzanian authorities that they will continue to honor their "share" of the Community's debt service under the currently agreed arrangements, we are uncertain as to what the Ugandans' response will be. The key to a satisfactory solution of the Uganda aspect obviously rests with Kenya but the Tanzanian authorities appear most concerned that developments in this area should not strain Bank-Tanzania relations. I took the opportunity to re-emphasize to Minister Jamal both Tanzania and Kenya's responsibility to come to suitable arrangements with Uganda. I made it clear that if these issues are left unresolved a Ugandan default could possibly occur. In the event of such a default I emphasized that we would have no hesitation in calling on the joint and several guarantees from both Tanzania and Kenya. In this connection, however, I should note that Uganda is continuing to honor its national and EAC debt obligations to the Bank in a timely manner, e.g., a debt service payment amounting to over \$400,000 on Loan 279-UG due on June 1, 1977 was received on May 24. These new developments require that we again review our options with regard to the EAC and in this connection I have instructed that a new position paper be prepared for management review.

The Rural Sector

6. Tanzania has created a decentralized Government structure designed to be more responsive to the needs of the rural population and to provide the basic development services. Although the presence and involvement of Government officials at the village and farm level is impressive, the apparent absence of field trials and backup services designed to adapt standard packages to local environments is disturbing. The extension workers seem to view their task as one of dissemination of "blanket" recommendations rather than one of adaptation. It is not, therefore, surprising that farmers often rightly ignore their advice. There is a clear need to focus on the development of the necessary support services and to give these aspects closer attention in our lending program. I was also struck by the apparent high priority given to social infrastructure -- water, housing, education -- by settlers in the new villages. By contrast, many obvious production possibilities were not being exploited by the villages even though some of them had the capability -- tractors -- to do so. It was explained to me that there were significant regional contrasts in social attitudes and priorities in Tanzania and also that villages could be expected to turn their attention towards expanding their production surplus once the "desired" infrastructure has been established. The rapid achievement of this transition is clearly important if Tanzania is to accomplish its production goals; I remain unconvinced, however, that this process is fully understood.

Overcommitment

7. It is difficult to avoid the impression that Tanzania has been overcommitting itself both in terms of manpower and financial resources. This overcommitment is reflected in an increasing recourse to deficit financing, a deterioration in the enforcement of fiscal control by the Treasury and a continuing rapid rate of inflation (although the rate has been reduced from about 30% in 1974 it is still running at about 15 to 20% per annum). These increasing fiscal constraints are resulting in project implementation problems and insufficient provision for the operation and maintenance of past investments. The Minister for Finance is fully aware of the dangers of allowing the current situation to continue and is attempting to reestablish Treasury control. It is apparent, however, that his efforts will require some time to take effect. His task is particularly difficult as it was clear from my discussions with the President that he is still not personally convinced of the difficulties and problems created by an excessive recourse to deficit financing.

Import Liberalization and Program Lending

8. Excessive import controls are a prime cause of Tanzania's disappointing rate of capacity utilization, particularly in the industrial and transport sectors. You will recall that the need for import liberalization was one of the major justifications of the recently approved Program Credit. Given the increased external resources now available to Tanzania, particularly following favorable movement in coffee prices, the Government is now, after some hesitation, finally embarking on an import liberalization program. In this connection the Minister for Finance reconfirmed his intention to go to the IMF for the required additional resources. Once they have obtained Fund support, it is clear however, that, if and when additional balance of payments support is needed, the Minister again intends to approach the Bank. I took the opportunity to restate our policies relating to program lending to the Minister. I explained that it was absolutely essential that Tanzania avail itself of resources available from the IMF before we could even consider any further program support. Although it is now clear that the Tanzanian authorities fully appreciate our position in this regard, I fear that in view of the difficulties relating to "overcommitment" Tanzania may find it difficult to live within the ceilings which would form an integral part of any agreement with IMF.

Project Implementation and Design

9. While Tanzania's implementation performance is about average for the Eastern Africa Region and while the progress of some of the

"modern" sector projects has been quite encouraging, implementation of rural projects aimed at the small farmers continues to be slower than anticipated. Despite the Government's concern and President Nyerere's personal interest in these matters, it is clear that implementation problems will continue to be a fact of life in these difficult and crucial sectors. We have taken steps to make our projections of project execution and disbursements more realistic; however, I am concerned that we still need to do more in this regard if we are to avoid overcommitment of funds to projects which, although having high priority, will be inevitably slow to implement. Furthermore, while we have taken steps to design more flexible projects and to make them consistent with the Government's decentralized structure, I am not sure that we have always accomplished this objective in practice. For example, it is apparent that certain procedures relating to the National Maize Project (Credit 606-TA) have resulted in neither the Central Government nor the Regions feeling responsible for certain aspects of the program with consequent detrimental effects on implementation. I intend to give these organizational issues greater attention in future appraisals and supervisions as well as to continue to be prepared to adjust projects during implementation if and when it becomes apparent that they are not fully consistent with the Government's development structure.

Bank Exposure and the Press

10. It is abundantly apparent that the Bank is operating in a highly exposed environment in Tanzania. In terms of commitments we are currently the largest donor accounting for about 30% of Tanzania's total external assistance. It is difficult to find a sector or region in which the Bank is not involved in some shape or form. Furthermore, we have maintained an intensive and inevitably visible dialogue with the Government over a wide range of policy issues. Although it is clear that our assistance is sought, valued and respected by the policy makers and the bulk of the bureaucracy, our exposed position clearly renders the Bank vulnerable to misinterpretation both within and outside Tanzania. I took steps, during my mission, to meet representatives of the Tanzanian media. I also took the opportunity to sign the Credit documents for the recently approved Tabora Rural Development Project in Dar es Salaam, an event which was well covered by the local press. I was struck, however, by the general lack of knowledge on the part of the local press both on the overall role and functions of the Bank as well as on our specific operations in Tanzania. In an attempt to reduce misunderstandings in the future I intend to explore ways and means in which we can improve local media knowledge and coverage of our operations.

Aid Coordination and the Consultative Group

11. The Minister for Transport and Communications, Mr. Jamal, led the Tanzanian delegation to the Consultative Group Meeting because the Finance Minister was unable to come at the last minute because the President had asked him to remain in Dar for crucial budget discussions. A major reason for holding the meeting at this time was to enable the Tanzanians to get donor reactions to the preliminary resource projections for the Third Five-Year Plan to be published later this year. The Bank staff felt these projections were far too optimistic (paragraph 7 above) and the Bank statement stressed this assessment as well as expressing our more general concern about overcommitment. Minister Jamal was defensive on both these points, but ultimately he acknowledged the need to take a closer look at projections and spending plans. Most of the other donors shared the Bank's concern about overcommitment. Bringing these issues forcefully to the attention of the Tanzanian Government was probably the most productive part of the CG meeting. Based on discussions at this meeting and with the Finance Minister in Tanzania, I believe that the Treasury now appreciates the dangers of overcommitment. However, as indicated in paragraph 7 above, it is apparent that this is primarily a political rather than a technical problem and it may be two or three years before Treasury regains full control of spending. The CG meeting should, however, help to hasten this process as word spreads of our concern and that of other donors.

12. The Government's projections presented to the meeting anticipated an increase in project aid disbursements of about 7.2% per annum in real terms over the current base of about \$240 million per annum. Although this target may be regarded as optimistic, we had concluded in advance of the meeting that, considering previous donor performance and the emergence of new aid sources, the figure was realistic. The general thrust of the members' statements at the meeting confirmed that the assumptions concerning assistance in the Plan framework should prove to be within reach. These projections, however, are exclusive of possible requirements for balance of payments assistance. In the absence of favorable movements in Tanzania's terms of trade, the need for program aid is likely to remain substantial in the medium term. In the event that such assistance cannot be secured and since the adverse production effects of reintroducing import restrictions could be severe, Tanzania may have to explore the possibility of diverting some project aid with a consequent cut in its investment program.

13. Most of the remaining plenary discussion at the CG dealt with issues of aid management and coordination, with donors raising

Mr. R. McNamara

-7-

June 2, 1977

their main concerns and responding to Tanzanian proposals for improved coordination. A full day was devoted to bilateral discussions between the Tanzanian and donor delegations and between the Bank and other donors. This was an innovation adopted at the last CG meeting with Tanzania two years ago and expanded this year at donors' and Government's request.

8

OFFICE MEMORANDUM

TO: Files

DATE: August 5, 1977

FROM: W. A. Wapenhans

SUBJECT: TANZANIA - Meeting with President Nyerere

1. On August 4, at 4:00 pm, Mr. McNamara called on President Nyerere at Blair House on the occasion of the latter's visit to the United States. The discussion centered mainly on aspects of the North/South dialogue and on the importance of leaders such as President Nyerere and Mr. McNamara speaking out on the issues of poverty, development and international trade. Mr. McNamara complimented President Nyerere on the example he is setting not only for his own people but for the developing world generally. He stressed the importance of growth with equity, self-reliance and austerity in Government, which were all embodied in the philosophy President Nyerere had enunciated some ten years ago. President Nyerere responded by stressing that the clear articulation of objectives was important but that progress was nevertheless slow and that Tanzania still had a long way to go. He did feel, however, that the Tanzanian people understood the need for change and austerity since, even with tax levels approaching 50% of wage income, his Government continued to enjoy their support.

2. The discussion then turned to the Brandt Commission. Mr. McNamara stated that the various international conferences, UN special sessions, the UNCTAD conference in Nairobi, and the CIEC meeting in Paris, had not furthered the North/South dialogue sufficiently and that what is needed is a dialogue based on a much broader and longer vision which could engender broad public support. It was, therefore, very important that men of President Nyerere's moral stature gave support to such initiatives as the Brandt Commission and make available for its work such trusted advisers as Minister Jamal. In this context, he thanked President Nyerere for the letter of support he had received only very recently and the message of which he had passed on to Mr. Brandt. He then asked President Nyerere that he instruct his Ambassador to the UN to support this initiative with his colleagues from developing countries at the UN. He thought that this was important in preparation for Mr. Brandt's visit to the UN in the fall. President Nyerere responded by saying that equally important was support from leaders of the developed countries. He encouraged Mr. McNamara to continue to alert the world to the problems of development, as he had done so effectively since he came to the World Bank.

3. President Nyerere thanked Mr. McNamara for the support that the Bank is giving to Tanzania. He felt that there was a frank but constructive discussion between his associates and the Bank staff. While there was no disagreement on the objectives, difference of view as to how to achieve them would continue to require such discussions.

cc: Mr. McNamara's Office ✓
 Mr. Please
 Mr. Clark, W.

WAWapenhans:rs

MEMBERS OF THE OFFICIAL TANZANIAN PARTY

Mwalimu Julius K. Nyerere
President of the United Republic
of Tanzania

The Honorable Benjamin Mkapa
Minister of Foreign Affairs

The Honorable John C. Malecela
Minister of Agriculture

Mr. Anthony Nyakyi
Principal Secretary for the Ministry
of Foreign Affairs

His Excellency Paul Bomani
Ambassador of the United Republic
of Tanzania to the United States

Captain Joseph Butiku
Private Secretary to the President

Mr. A. B. Suedi
Chief of Protocol

Professor J. D. Rweyemamu
Economic Advisor to the President

Professor W. Makene
Personal Physician to the President

Mrs. Martha Bulengo
Director of the Community Development
Trust Fund

Mr. David Simbeye
Chief Staff Officer

Lt. Col. Salum Boma
Aide-de-Camp to the President

MEMBERS OF THE ACCOMPANYING TANZANIAN PARTY

Mr. Herbert Lyimo
Counselor (Political Affairs), Embassy
of the United Republic of Tanzania

Mr. Paul Sozigwa
Director of Broadcasting Services

Mr. Samy Mdee
Press Secretary to the President

Miss Joan Wicken
Personal Secretary to the President

Mr. Fred Mwangota, Staff Officer

Mr. Daniel Ndosu, Staff Officer

Mr. Omar Mwangosongo, Staff Officer

Mr. R. Mkanzabi, Staff Officer

Mr. S. Mohamed, Staff Officer

Mr. E. Shayo, Staff Officer

Mr. Geoffrey Wandiba, Staff Officer

Mr. Abdallah Mzee
Personal Assistant to the President

Mr. Henry Isike
Official Photographer

Mr. Mbegu Said Malipulla
Second Secretary (Information),
Embassy of the United Republic of
Tanzania

Mr. Katakweba
Protocol Officer

Julius Kambarage NYERERE
(Phonetic: nyuhRAIRee)

TANZANIA

President
(since April 1964)

Addressed as:
Mr. President



Julius Nyerere, or *Mwalimu* (teacher) as he is known to his people, was the founder of his country's independence movement and has been Tanzania's only President.

Under the aegis of his motto of "socialism and self-reliance," Tanzania has moved toward the collective, egalitarian, socially committed society that he seeks. In international affairs, President Nyerere has been a champion of African unity, an active leader of the nonaligned world, and a committed promoter of majority rule in southern Africa through a negotiated settlement rather than an armed struggle.

Nyerere was born in 1923 in Butiama, a small village near Lake Victoria that he still considers home. After 2 years at Makerere College in Uganda, he returned home to become a history and biology teacher at a Catholic secondary school. He later studied history and economics at Edinburgh University, returning to Dar es Salaam and to secondary teaching in 1952.

In 1953 Nyerere entered politics as president of the 25-year-old Tanganyikan African Association. He led Tanganyika to independence in December 1961 and a year later was elected his country's first President. In 1964 he arranged the union with the island of Zanzibar that created the United Republic of Tanzania.

Nyerere is a Roman Catholic. He and his wife, Maria, have seven children. He speaks excellent English.

CR M 77-13492
25 July 1977

Benjamin MKAPA
(Phonetic: mKAHpa)

TANZANIA

Minister of Foreign
Affairs (since February
1977)

Addressed as:
Mr. Minister



A journalist by profession, Benjamin Mkapa was President Julius Nyerere's press secretary during 1974-76. He then served for 4 months as Tanzanian High Commissioner to Nigeria, with concurrent accreditation to Ghana, before he returned to Dar es Salaam to enter the Cabinet.

Mkapa was educated at St. Francis College in Dar es Salaam (1955-56) and holds a B.A. degree (with honors) from Makerere University in Uganda. He took the Carnegie course for diplomats at Columbia University during 1962-63 and a journalism course in the United Kingdom during 1965-66.

In 1966 Mkapa became editor of *The Nationalist* (English) and *Uhuru* (Swahili). In 1972 he became editor of *The Daily*, a government-run newspaper that was created by the merger of *The Nationalist* and *The Standard*; *Uhuru* was assigned to another editor. Mkapa became presidential press secretary in July 1974. At the end of that stint he served for 4 months as director of the Tanzanian News Agency and then was posted to Nigeria.

Mkapa, 38, is married and has two children. He speaks excellent English.

CR M 77-13488
21 July 1977

John William Samuel MALECELA
(Phonetic: mahlehCHEHlah)

TANZANIA

Minister for Agriculture
(since November 1975)

Addressed as:
Mr. Minister



John Malecela, one of Tanzania's leading administrators, has held a variety of important posts in Dar es Salaam and abroad. During 1964-68 he was his country's Permanent Representative to the United Nations; he chaired the UN Committee on Decolonization during 1966-67 and was Vice President of the UN General Assembly in 1967. Malecela has served in the Cabinet since 1972, first as Foreign Minister (1972-75) and then as Agriculture Minister.

Malecela holds a bachelor's degree in commerce from the University of Bombay and has studied administration at Cambridge University. He was in the civil service of Tanganyika (now Tanzania) during 1960-61. Posted to Washington as consul early the next year, he served concurrently as third secretary at the Tanganyikan Mission to the United Nations until he was promoted to Permanent Representative in 1964. After his UN tour, Malecela was Ambassador to Ethiopia (1968-69) and Minister for Finance and Administration in the East African Community (1970-72).

The Minister has represented his country at several conferences of the Organization of African Unity, and among his numerous trips abroad have been visits to China, Australia and New Zealand. Malecela, 43, is married; his wife, Ezerina, is a former schoolteacher. The couple has a son and a daughter. The Minister speaks English. He is an Anglican.

CR M 77-13486
22 July 1977

Anthony B. NYAKYI
(Phonetic: nYAKyee)

TANZANIA

Principal Secretary,
Ministry of Foreign
Affairs (since February
1972)

Addressed as:
Mr. Nyakyi



A young (41) career diplomat, Anthony Nyakyi currently holds the top civil service post in the Ministry of Foreign Affairs. He has served as Ambassador to the Netherlands (1968-70) and to West Germany (1970-72), with concurrent accreditation to the Vatican and Romania (1971-72).

Nyakyi earned a B.A. degree from Makerere University in Uganda in 1962. He then joined the government as a district officer and toward the end of the year was transferred to the Ministry of Education. In 1963 he moved to the Ministry of Foreign Affairs and became the principal assistant secretary in charge of the Political Division; as such he was the direct supervisor of all the Ministry's geographic desks. He has attended several ministerial meetings of the Organization of African Unity and has attended the UN General Assembly twice, in 1970 for the 25th anniversary session and again in 1974.

CR M 77-13490
22 July 1977

Paul Lazaro BOMANI
(Phonetic: bohMAHNee)

TANZANIA

Ambassador to the United
States (since October 1972)

Addressed as:
Mr. Ambassador



A successful businessman before entering government service, Paul Bomani served in the Cabinet for 12 years, proving to be one of his country's most competent and capable administrators; and now, in his first foreign post, he has become a highly respected diplomat. He is an active representative of Tanzania and has traveled extensively in this country, meeting with various American groups.

The son of a Protestant minister, Bomani was born on 1 January 1925. During the 1950's he was active in the formation of cotton cooperatives. He has been a member of President Julius Nyerere's Cabinets since 1960: He has held the portfolios of Agriculture and Cooperatives (1960-62), Finance (1962-65), Economic Affairs and Development Planning (1965-70), and Commerce and Industry (1970-72). He also served from 1967 to 1970 as a Governor of the World Bank. As a Cabinet official, Bomani traveled extensively in both Eastern and Western Europe and also visited China, North Korea and Japan.

Bomani and his wife, Hildegard (Hilda), have several children. They both speak English fluently. Bomani is a Roman Catholic.

CR M 77-13485
22 July 1977

Justinian Ferdinand RWEYEMAMU
(Phonetic: rehyeeMAHmoo)

TANZANIA

Personal Assistant to the President; Secretary to the Cabinet Economic Committee (since November 1975)

Addressed as:
Dr. Rweyemamu



Dr. Justinian Rweyemamu received his advanced education in the United States during the 1960's: He earned a B.A. degree from Fordham University in New York and an M.A. degree and a Ph. D. (economics) from Harvard University under the sponsorship of the Rockefeller Foundation. He visited this country again in September 1975 as a member of the Tanzanian delegation to the annual meetings of the International Monetary Fund-International Bank for Reconstruction and Development. At that time he was Principal Secretary--the top civil servant--in the Ministry of Economic Affairs and Development Planning.

Before he came to the United States, Rweyemamu received his secondary education in Tanzania. Returning home in the late 1960's, he joined the staff of the University of Dar es Salaam as a lecturer; he was appointed dean of the Faculty of Arts and Social Sciences in 1970 and became head of the Economics Department in 1971. He became Principal Secretary in the Economic Affairs Ministry in June 1974 and held that post until he assumed his current positions.

Rweyemamu, who is 34 years old, is married. He is a Roman Catholic.

CR M 77-13493
22 July 1977

Joan WICKEN

TANZANIA/UNITED KINGDOM

Personal Assistant to the
President (since about 1961)

Addressed as:
Miss Wicken

A close associate of President Julius Nyerere, British-born Joan Wicken has served as his personal assistant since Tanzania gained its independence in the early 1960's. She first met him during a 6-month tour of Africa in 1957. A former assistant commonwealth officer of the British Labor Party, Wicken worked for the African Educational Trust in London until 1960; then she left to take the post of secretary to the Board of Trustees of the Tanganyika (now Tanzania) Educational Trust and to work on the plans for organizing Kivukoni College in Dar es Salaam.

The daughter of a trade union official, Wicken was born about 1928 and grew up in London. She served in the army during World War II and then earned a B.A. degree in philosophy, politics and economics from Oxford University in 1953. She speaks Swahili.

CR M 77-13494
22 July 1977

Thanks for the Brandt Com - ask Substantive support - Jerald

64-28 37.
69-73 117.
74-78 417.
76 60
77 114
78 102

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
FROM: W. A. Wapenhans
SUBJECT: TANZANIA - President Nyerere's Visit to Washington

W.A.W.
W.A.W.

DATE: July 28, 1977

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WBG ARCHIVES

1. Your meeting with President Nyerere is scheduled to begin at the Blair House between 4:00 and 6:00 pm on August 4, 1977. I intend to be present unless you prefer to speak to President Nyerere alone. President Nyerere is visiting Canada, the U.S. and Jamaica during the first two weeks of August to discuss bilateral relations, the "New Economic Order" and the liberation movement in Southern Africa. He is scheduled to make a major statement on "Human Rights and Liberalization" at Howard University, where he is receiving an honorary degree on August 5. I assume that in your conversation with President Nyerere you will wish to focus primarily on broad developmental concerns, including the Brandt Commission and the North/South dialogue. This memorandum briefly summarizes (i) the Tanzanian country issues including EAC, some of which you could usefully raise with the President should a suitable opportunity arise; (ii) the Southern Africa situation to the extent we presently know it; and (iii) a memorandum on the North/South discussion and the Brandt Commission prepared by William Clark (Annex I).

2. Although we have no pressing issues which require urgent high level attention at this time, I feel that it would be appropriate if you could refer to our current concerns relating to (i) over-commitment; (ii) project implementation; and (iii) the future of the EAC, in your discussion with the President.

Tanzania

3. Status of Relations: In recognition of Tanzania's poverty and its strong commitment to development and social equity, Tanzania has for some time now been the beneficiary of an active lending program with the Bank Group. Our annual level of lending is presently averaging about \$90.0 million for six operations. The currently approved IBRD/IDA Five-Year Lending Program (attached as Annex II) amounts to about \$600.0 million (including Tanzania's share of the EAC Program), about one-third of which is expected to be IBRD. During recent years, a constructive dialogue has developed between the Bank and Tanzania: our advice is both sought and respected. In no small part has this been a direct result of President Nyerere's close interest in the Bank's program. For example, he has been known to have read and made detailed comments on several of the Bank-supported rural development projects as well as our economic memoranda. Also, media responses in Tanzania have begun to be more balanced since efforts were made at more detailed press briefings on the Bank and its role in Tanzania.

4. Recent Economic Developments: You may recall that two years ago Tanzania was in the midst of a severe economic crisis. In common with many other countries, Tanzania was hard hit by the adverse economic conditions in the world economy. In addition, Tanzania was suffering from the effects of a prolonged drought and from temporary dislocation following basic institutional and sociological reforms designed especially to improve the long-term prospects for the development of rural areas. In the past two years, however, Tanzania has made reasonable progress. Agricultural production in many areas has improved. The rise in coffee prices has also produced considerable relief in the Balance of Payments.

5. It is evident, however, that full recovery will indeed be a lengthy and difficult process. The short-term needs of crises management now appears to have given way to the needs of carefully designed policies to put the economy on to a sustainable long-term path of development. For example, the Government decisions to apply strict employment and wage policies, reduce subsidies, and apply stern tax measures, as well as the most recent attack on the problems of parastatal inefficiencies, have combined to ease the tight budgetary situation and reduce the recourse to the domestic banking system. These stern measures, however, need careful monitoring and follow-up if the country's scarce resources are to be applied continuously in an efficient manner.

6. Overcommitment: The overcommitment in Tanzania of both financial and human resources may perhaps be the most serious problem facing the country at present. While this certainly reflects Nyerere's desire to stretch and challenge the economy to greater efforts, we now believe the long-run effect may be to retard and distort economic growth. The implementation of too large a number of projects has led to underfinancing, too thin a spread of capable Tanzanian manpower, an over-emphasis on projects sponsored by "strong Ministries" or with identified external financing, a bias in favor of the more complex, integrated long gestation projects, and finally a starvation of funds for operations and maintenance expenditures. These developments have plagued project implementation in Tanzania. The aggregate effect may well be a lower rate of growth than otherwise attainable. In addition, the deficit financing accompanying this overcommitment has led to a rate of monetary expansion in excess of what is justified on the basis of real production growth and, therefore, to demand inflation with all the distortions that implies. Probably the most disturbing result of this continuing inflation (at present over 10 per cent per annum) is that it threatens to erode the incentives created by the increases in agricultural producer prices enacted in recent years.

7. The overcommitment problem constituted the central focus of both my discussions with President Nyerere during my May visit to Tanzania and the meeting of the Consultative Group on Tanzania held in Paris later that month. The Minister of Finance (as well as several other senior officials) is fully aware of the dangers of allowing the current situation to continue and he is attempting to re-establish Treasury control. For 1976/77, the Government borrowings have remained within the IMF ceiling. In his recent budget presentation, the Minister of Finance explicitly addressed these points and promised much more conservative fiscal and monetary policies. He also outlined measures for import liberalization. It is apparent, however, that these efforts will take some time to take effect. Furthermore, as was clear from my discussion with President Nyerere last May, the Minister's task is made particularly difficult by the fact that the President is still not personally convinced of the difficulties and problems created by an excessive recourse to deficit financing. Although it is clearly necessary for Tanzania to "run while the others walk", President Nyerere may have pushed too far in this direction.

8. Project Implementation: Our concerns and activities in regard to project implementation were extensively reviewed in my July 14 memorandum to you on that subject (attached as Annex III). You may, if a suitable opportunity arises, wish to emphasize our particular concern over the problems of implementing projects in the rural areas and the fact that we are establishing a special monthly review procedure. It would, of course, be very useful if the President were to maintain a personal interest in matters of project implementation. He addressed this problem specifically in his address at the occasion of the 10th anniversary of the Arusha Declaration.

9. East African Community: I have detailed the latest developments of the EAC in my July 27 memorandum (attached as Annex IV). With President Nyerere it may be useful to emphasize that:

- (a) while the Bank is prepared to disburse on outstanding EAC loans and sympathetically consider the needs of the new national entities, appropriate attention must be paid to how the assets and liabilities of the EAC corporations are handled, including arrangements for meeting debt obligations; and
- (b) Uganda is particularly hard hit by the elimination of EAC services. Therefore, the provision of appropriate services to Uganda will be an important factor in its willingness and ability to meet its EAC obligations (thereby determining whether the joint and several guarantee provision will ever need to be enforced).

Most recently there have been reports on political voices in Kenya and Zambia calling for a larger East African Community. This may well be, however, a diversionary move of little or no consequence.

Developments in Southern Africa

10. President Nyerere is likely to touch on the developments in Southern Africa. Several aspects might come up in your discussions. The following paragraphs summarize our present position.

11. Rhodesia: The Bank at present has no operations in Rhodesia. Debt service on account of Rhodesia's obligations under our Kariba Power Project is being paid regularly by the U.K. as the guarantor. As for the future, it is very difficult to assess prospects. By dissolving his Government on July 19 and calling for general elections on August 31 (on the old legal basis under which only 10,000 out of 3.6 million Blacks have the franchise), Prime Minister Ian Smith has, in effect, rejected the Anglo-American proposal which called for early transfer of power to a majority Government and one man, one vote elections. Not surprisingly, the more moderate Black leaders, Muzorewa and Sithole, have also said that they would accept nothing less than a one man, one vote solution, and will not cooperate with Smith in the "internal" solution envisaged by him.

12. Despite growing political isolation from its neighbors, Rhodesia continues to provide some vital services to them, disruption of which would have adverse effects on several of our member countries, and even some of our projects:

- (a) Much of Zaire's coal/coke and food grains used in the Shaba Province originate in Rhodesia;
- (b) A substantial part of Zaire's copper (10-25%) and other mineral exports, as well as of its imports, is presently routed through Rhodesia. TAZARA is handling a growing volume of Zaire's export traffic, but as long as the Lobito line through Angola is closed, the route through Rhodesia remains vital;
- (c) Although Zambia has officially closed its borders with Rhodesia, some essential imports for the copper mining industry continue to move by road through Rhodesia;
- (d) Zambia and Rhodesia continue to cooperate, through the Central African Power Corporation, in the generation and exchange of electric power. Since the commissioning last May of the last of four units in the Bank-financed Kariba-North Bank power station on the Zambezi River, the net flow of power is from Zambia to Rhodesia, but there are periods when power generated in Rhodesia is needed in Zambia as well;
- (e) Rhodesia Railways operates a railway line from Bulawayo through Botswana to the Republic of South Africa, which also provides essential transport services within Botswana and between Botswana and South Africa.

13. We have carried out a preliminary desk study of the economic situation and prospects. The 1975 GNP per capita estimate is \$540. A military solution to the present conflict - which cannot be excluded - would lead to disruptions of the economy, most likely a large exodus of Whites, and a predictable sharp drop in GNP. As things stand at present, education, training, agriculture including most probably redistribution of land and resettlement, and public administration are first among the needs on which the Bank Group and other donors would have to concentrate in any future development assistance effort. Massive technical assistance is likely to be required for some time after independence to maintain services and industrial activities. Of course, a serious military confrontation could lead to a much more drastic deterioration of the near-term prospects for Zimbabwe.

14. Zimbabwe Development Fund: In November and December 1976, the United States Department of State informally informed the Bank of a joint U.S./U.K. proposal for a Zimbabwe Development Fund. The purpose of the Fund would be to

July 28, 1977

assist the new Government of Zimbabwe to promote "(i) balanced economic and social development in Zimbabwe; (ii) rapid expansion of economic opportunities for and skills of the African majority; (iii) basic economic security for all sections of the population so that they might continue to contribute their skills and enthusiasm to the development of the country".

15. We understand that the proposal was circulated, in late December, to eighteen Governments and institutions and was also discussed with the four principal leaders of the Black Rhodesian population. The Bank was informally asked to consider whether it would be prepared to administer the Development Fund. Such a task would require substantial staff input (for which we should demand reimbursement from the Fund). It would also raise a number of procedural questions, such as the responsibilities of the Bank's Executive Directors as compared to those of an independent Development Fund Board. A most sensitive issue for the Bank Group would be how it could be assured that the bulk of the proceeds of such a Fund would benefit (and be seen to benefit) the Black population of Zimbabwe, rather than to buy out the departing White settler/owners, though the proposal apparently makes no specific provisions for compensation.

16. When the Geneva Conference broke down in January, the proposal for the Zimbabwe Development Fund was apparently shelved. About two to three weeks ago, further discussions seem to have taken place on the Development Fund proposal between major possible contributors. I would assume, however, that, with the recent break-down of negotiations between Rhodesia and the U.K./U.S., the proposal once again remains in abeyance.

17. Mozambique: Despite immense economic problems of a nature in which the Bank Group could be of assistance, Mozambique has not yet applied for membership in the Fund or the Bank Group. There have been several contacts by Bank and Fund staff with Government officials. Michael Wiehen, in March 1975, visited Mozambique for intensive discussions and met also in Dar-es-Salaam with the FRELIMO Vice President, Marcelino dos Santos, who now is Vice President of Mozambique and Minister for Economic Development and Planning. Very recently, the National Director of the International Cooperation Directorate, Ministry of Development and Economic Planning, approached the UNDP Resident Representative in Maputo with a request for further information regarding membership in the Bank Group, which we have provided.

18. I believe that Mozambique would have no philosophical difficulty in joining the Bank Group. However, they seem to consider membership in the Fund as more problematic. The reservations apparently stem both from a lack of understanding (due to most severe staff shortages in the Government) and philosophical problems advanced by several Marxists in the Government. There is, however, no indication that these are shared by President Samora Machel. We have had a number of indications during the last month or two from various quarters in the Eastern Africa Region that Mozambique

may soon be ready to act on its membership application. You may wish to ask President Nyerere to provide some encouragement to the Mozambicans for such a move. President Nyerere would be an excellent interlocutor for demonstrating to the Mozambican Government that we can be of assistance irrespective of the political philosophy prevalent in a country. The Secretary-General of the U.N., in response to a Security Council Resolution (411 of May 25), is dispatching a mission to Mozambique to determine "financial, technical and material needs". He has advised the Bank that he will communicate with us again after the return of this mission.

19. Namibia: We are presently not in a position to prepare for any activity in Namibia, except for some desk studies. However, we are providing modest assistance to the Namibia Institute located in Lusaka. This institute was created by the United Nations in 1974; it carries out research and trains Namibians for organizing and administering a Government after independence. The EDI provides teaching materials and the Namibia Institute's Assistant Director very recently spent two weeks at EDI.

20. Lesotho and Botswana: Following creation last year of the Transkei Bantustan, Lesotho appealed to the U.N. for special help because of serious difficulties arising from the closing of certain border posts. Botswana also appealed to the U.N. because of the "dangerous situation" created by Rhodesian actions along its borders. In response, the Security Council requested U.N. members and organizations to step up economic assistance to both countries. The Secretary-General designated Mr. Abdulrahim Farah, Assistant Secretary-General for Special Political Questions, to coordinate U.N. actions and in January dispatched a mission to both countries, headed by Farah. The mission members were extensively briefed in the Bank before their departure and we provided a transport economist for the Lesotho portion of the mission. On a per capita per annum basis, the Bank Group's lending programs in these countries in Southern Africa are among the highest in the Bank Group. Our present programs are consistent with the priority needs, as determined by the Farah mission. Mr. Cheysson of the European Economic Commission has also been in touch with us regarding the possibilities for Botswana to assume responsibility for that part of the Rhodesian Railways operating within the former's borders.

21. Transkei: In January 1976, two senior officials of the Transkei, accompanied by South African representatives in Washington, visited the Bank to enquire about membership procedures and Bank operational activities in the Transkei prior to independence and membership. We indicated that membership had to be approved by the Governors of the Bank and that any operational activity prior to membership would be very difficult. There have been no further contacts since then. The Transkei became formally independent on October 26, 1976. The Organization of African States took a formal decision that no member country would recognize the Transkei. To the best of my knowledge, only a handful of small countries, such as Taiwan, have recognized it.

22. Angola: There have been no contacts between Bank staff and the Government of Angola. Internal dissent appears to be on the rise and the present preoccupation seems to be with the establishment of internal control and political stability.

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23. Overall, I believe that progress towards a resolution of the Rhodesia problem is precedent to further concrete developments regarding Bank membership of Mozambique and Angola. President Nyerere may well enquire about a more activist stance on the part of the Bank during the interim, especially with regard to economic work and technical assistance to Mozambique. Once a membership application is pending, we should be willing to respond constructively. The U.N. General Assembly Resolution 31/145 of December 17, 1976, called for a special International Conference in support of Zimbabwe and Namibia. The organizing committee for the conference included Tanzania as a member; in its report, the committee asked for Bank participation in the conference. The conference took place in Maputo May 16-22; however, we declined the invitation since we did not feel that we could have made a meaningful contribution in the absence of progress towards resolution of the political issues.

Attachments

cc: Mr. Knapp
Mr. Please
Mr. Wiehen

WAWapenhans:rs

OFFICE MEMORANDUM

TO: Mr. W. Wapenhans

DATE: July 26, 1977

FROM: William Clark *WCL*SUBJECT: Nyerere's Visit to Mr. McNamara

One topic that Nyerere may wish to raise with Mr. McNamara is the Brandt Commission. You will recall that we had messages through Hansen that Nyerere was favourably disposed to the original concept. But he delayed any public pronouncement till he knew more about its terms of reference and its composition.

I had a conversation with Amir Jamal in London in June in which he said that he hoped the Commission would study the obligations of both rich and poor countries to development. In particular he referred to the need to examine the distribution of income in LDCs, with the objective of helping the poorest.

I know that Brandt has written to Jamal asking him if he is prepared to be a Commissioner, but had not received a reply when he went off on holiday.

It would be useful if President Nyerere could be told more about the objectives of the Commission, urged to support it by a message to Brandt and also by making what inputs he could publicly or privately (or through Jamal) while the Commission meets. Apart from his substantive contributions, it is important that Nyerere's seal of approval is known to the radical Third World - including his Ambassador to the U.N. and his High Commissioner in London (whose critical speech about the Bank shows some need of education).

WDClark:sf

9

OFFICE MEMORANDUM

TO: Records

DATE: October 25, 1978

FROM: Bengt G. Sandberg, ~~Division~~ Chief, EACPISUBJECT: Mr. McNamara's Meeting with the Tanzania Delegation

Mr. McNamara met with the Minister of Finance of Tanzania, Mr. Mtei, on Friday, September 22, 1978. Messrs. Bomani, Tanzania's Ambassador to the United States, Thahane, Stern, Wapenhans, Wiehen and Sandberg were also present.

Mr. McNamara noted that the IDA Appropriations Bill was currently before the U.S. Senate and suggested that strong support from the developing countries would be very useful in trying to get the Bill through. Mr. Mtei assured Mr. McNamara that there had been strong support for IDA at the Commonwealth Finance Ministers' meeting in Montreal and that there had been a specific reference to the subject in the final communique.

Mr. McNamara congratulated the Minister on the impressive response of the Tanzanian Government to the recommendations of the Bank's Basic Economic Report and expressed the hope that the report had been helpful to the Government in focusing on the serious issues raised in it. Mr. Mtei noted that the Government was seriously addressing these problems and appreciated the help it was receiving from the Bank. It was agreed that the Bank should continue to work on the long-term issues within the context of its economic and sector work.

Mr. Mtei referred to the exchange of letters between Mr. McNamara and President Kaunda regarding the transport problem faced by Zambia and stressed that so far there had been no discussion of the subject between Mr. Kaunda and President Nyerere. While Tanzania recognized that there might be bottlenecks in the port of Dar-es-Salaam, there were also difficulties on the Zambian side of the border. Mr. Mtei indicated that his Government would be prepared to undertake major improvements in the port but it should be remembered that the benefits would largely accrue to Tanzania's land-locked neighbors. He would, therefore, like the Bank to regard the proposed ports project as a regional project and to finance it outside the financial allocation set aside for Tanzania. While stressing that he could not make a firm commitment on this point, Mr. McNamara said that the Bank would study the feasibility of the project and would also in due course consider the Minister's request for an additional IDA allocation.

Mr. Mtei noted that, in response to the Bank's recommendations, the Tanzanian Government had relaxed import restrictions over the past 18 months in order to allow the importation of essential spare parts and equipment. However, this had resulted in a sharp run down of foreign exchange reserves, particularly following the peaking of coffee prices. These disturbing developments had been discussed with the IMF with a view to bolstering the reserve through the use of the Extended Fund Facility. Although the Fund had proved very rigid in its position with regard to the need for changes in Government policy and even though he might have

difficulty persuading his colleagues about the wisdom of such changes, the Minister had agreed to continue the discussions with the Fund following the Annual Meeting. Assuming that agreement could be reached, the Government would like to come to the Bank for a program loan to help cover the resource needs which the Minister believed would be very large if the momentum of growth of essential imports was to be maintained.

Mr. McNamara said that the Bank would be happy to discuss a possible program loan. However, he also indicated that agreement on a short-term program with the Fund was a prerequisite for such discussions, which would then focus on longer term issues, in particular the need for a clear and precise action program to promote exports. In response to Mr. Mtei's worry that agreement with the Fund could prove impossible and his request that discussions with the Bank take place in the absence of such agreement, Mr. McNamara said that although a program loan was not contingent upon meeting the Fund's requirements in every detail, it was essential that a firm program dealing with both the long-term and the short-term problems be worked out. Such a program would have to address the need to promote exports and to balance available resources and priority needs.

In this context, Mr. McNamara noted that it would be difficult to fit some of the large projects reported to be under discussion within available resources and he cautioned Tanzania to avoid capital intensive, lower priority projects. Mr. Mtei reminded Mr. McNamara that most major projects were backed by the Bank and assured him that the major exception, the steel project, was not going to be implemented in the near future, i.e. at the earliest in the 1980s.

In response to a question from Mr. McNamara, Mr. Mtei indicated that the problems of Tazara (Tanzania-Zambia Railway) were basically management problems. Turnaround of wagons was slow because, in the absence of agreement on their use, Zambia was maximizing their use in Zambia for storage. Mr. Mtei believed that capacity could be doubled if there was full cooperation from the Zambians. As it was, goods kept piling up at the port of Dar-es-Salaam, causing major congestion there.

Finally, Mr. Mtei referred to press reports that the head of Lonrho, "Tiny" Rowland, would enlist the support of the Bank in his dispute with the Tanzanian Government over compensation for his properties which had been nationalized and said that Mr. Rowland had been expelled from Tanzania because he had broken the sanctions against Rhodesia and thus undermined the Tanzanian Government's policy in Southern Africa. Mr. Rowland had been invited to come to Dar-es-Salaam to negotiate compensation on the basis of the current price of Lonrho shown on the stock exchange, plus a reasonable premium. This formula had been rejected by Mr. Rowland, however, and instead he had demanded TSh 380 million, which the Government considered ridiculous. Mr. Mtei assured Mr. McNamara that the Government was always prepared to discuss compensation matters further with Mr. Rowland. Mr. McNamara assured Mr.

Mtei that the Bank had heard nothing from Mr. Rowland and that the matter would not affect relations between the Bank and Tanzania.

BGSandberg:mc

cc: Mr. McNamara's Office (2)
Messrs. Wapenhans
Adler
Gulhati
Wiehen

10

OFFICE MEMORANDUM

TO: Files

DATE: April 9, 1979

FROM: F. Stephen O'Brien, Acting Director, EAI

SUBJECT: Meeting between Mr. McNamara and Tanzanian Finance Minister Mtei

1. Mr. McNamara met with the Minister of Finance and Planning of Tanzania, Mr. Edwin Mtei, the Tanzanian Ambassador to the United States, Mr. Paul Bomani, and the Permanent Secretary of Finance and Planning, Mr. Ernest Mulokozi, on Friday, April 6, at 5:45 p.m. Also present were Mr. Stern, Mr. Wapenhans, Mr. Koch-Weser, and Mr. O'Brien.
2. Mr. Mtei opened the meeting by referring to the discussion which he had had with Mr. McNamara on the subject of program lending during the Bank/IMF Annual Meetings in September 1978, in which Tanzania's need for balance of payments support from both the IMF and the Bank had been stressed. Mr. Mtei stated that since that time Tanzania had not been able to agree with the IMF on a program for an Extended Fund Facility (EFF). However, Tanzania's discussions with the Fund have now resulted in agreement on a first tranche drawing plus trust fund and export compensatory facility which will make available SDRs 42 million. The Government is now going to resume discussions with the Fund on an EFF. However, Mr. Mtei stressed that because of the critical balance of payments situation which Tanzania now faces, the country requires additional support beyond the EFF in order to maintain the flow of essential imports. In order to accelerate the flow of complementary resources from the Bank, he requested that the Bank and Government begin discussions on a program loan now and that these discussions and preparation of a program loan proceed in parallel with the IMF discussions.
3. In response, Mr. McNamara said that we could certainly start these discussions and preparation of a program loan now, but that two factors would have to be kept in mind. First, there is the need for Tanzania to revise its development plan and to scale down investment requirements to likely availability of finance in light of the more severe resource constraints now facing the country. Program lending from the Bank could only support a feasible and balanced development program; without such a program there would be no firm base for either project or program lending. Second, in our view Tanzania's resource needs are so great that, in the absence of an EFF, any program lending from the Bank alone would be inadequate. If Tanzania can make a case for a program loan without an EFF we are willing to look at it, but we doubt if it would be possible. The Government has already had to cut back severely on imports and we feel that without an EFF they would be unable to meet their needs for essential imports to maintain the pace of development. In summary, Mr. McNamara stated that while our Board does not require an IMF agreement as a condition of program lending, they do require a sound development plan and adequate imports to support development.

4. In replying to these points Minister Mtei stated that a framework for reviewing and revising the current five-year plan has already been agreed upon by the Government. Tanzania is now completing the third year of the five-year plan period. For the remaining two years of the plan period the Government intends to slow the pace of investment considerably, concentrating on existing commitments. The focus will be on directly productive sectors, particularly on export oriented projects and on infrastructure bottlenecks which have stifled exports.

5. In concluding, Mr. McNamara stressed the importance of effective implementation of the Bank Group's large lending program in Tanzania and expressed appreciation for the support which the Minister and Ministry of Finance and Planning had given to the regular project implementation reviews which have been set up between the Bank and the Government. Finally, Mr. McNamara asked the Minister to convey his personal regards to President Nyerere.

cc: Mr. McNamara's Office (2)
Messrs. Stern
Wapenhans
Adler
Gulhati
Sandberg/Adams/Ramadan/King

FSO'Brien/msg

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Willi A. Wapenhans, RVP, EAN

SUBJECT: TANZANIA: Visit of Minister Mtei

DATE: April 5, 1979

1. Minister Mtei is interrupting a visit to Europe to meet with the senior managements of both the IMF and the Bank. We expect that his central concern will be Tanzania's current balance of payments difficulties and that he will want to review the prospects for an Extended Fund Facility (EFF) with the IMF as well as the Bank's views on program lending.
2. The long term nature of Tanzania's balance of payments problem was analyzed in detail at the time of the initial program lending operation in December 1974 (a loan of \$30 million). The underlying problems facing the balance of payments were clear (stagnant export volumes combined with a significant deterioration in Tanzania's terms of trade) and it was recognized at that time that the structural adjustments required to deal with them would take some time. Therefore, the need for additional balance of payments support was anticipated; in fact increased program type assistance was the central focus of the Consultative Group in 1975 and a second program lending operation was approved in March 1977 (a credit of \$15 million). In addition, the underlying problems have been a major focus of our economic and sector work over the past two years.
3. With the boom in coffee prices in 1976-77, these problems were temporarily under control: the overall balance of payments went into surplus in 1977 and by the end of 1977 gross external reserves were above \$300 million, equivalent to over four months imports. This allowed a liberalization of imports in 1977 and 1978 which has had a significant effect in stimulating the economy. However, this relief was short-lived: with falling coffee prices the balance of payments deteriorated rapidly. In 1978 the balance of payments turned out even worse than had been predicted as late as November 1978 by the IMF: exports fell short of targets and imports were at a higher level than forecast. The trade deficit for 1978 was \$584 million, the current account deficit was \$367 million, and the overall balance of payments was in deficit by about \$250 million. As a result Tanzania drew down its foreign exchange reserves by almost \$200 million and net foreign assets turned negative; they were estimated at minus \$60 million at the end of December 1978.
4. The Government recognized the seriousness of the situation by mid-1978 and requested IMF and Bank Group assistance for dealing with it. Reflecting the long term nature of the problem, the discussion with the IMF originally focused on an Extended Fund Facility (EFF) plus the special fund facility for approximately \$200 million to be disbursed over three years in six equal semi-annual installments. However, after little progress was made in addressing a number of critical issues which the IMF

felt had to be addressed in order to justify an EFF (the exchange rate, interest rates, price controls, inadequate incentives and too-rapid budgetary growth), the Tanzanian Government requested in November that the IMF move forward with an interim operation utilizing funds from the first credit tranche, trust fund and export compensatory facility. Even the negotiations for this operation proved difficult, in spite of the fact that few conditions were involved. A series of IMF missions were required to reach agreement on a letter of intent and the proposed operation, totalling \$55 million, will go to the IMF Board only later this month.

5. Discussions on the EFF are continuing and another IMF mission is scheduled for May. However, in view of the long history of strained IMF/Government relations we do not see this as an easy process. The Government continues to have basic reservations about the general approach of the IMF to development and in the earlier discussions of the EFF had raised serious reservations about whether the IMF had fully analyzed the implications of some of its recommendations on the critical policy issues. It was no coincidence that in his opening statement to the Group of 77 meeting in Arusha in February 1979, Nyerere noted "we always seemed to end up... subject to IMF deflationary policies." On their part, the IMF has had a difficult time getting the Government to react to the EFF policy recommendations in detail. In addition, Tanzania's past record of exceeding agreed conditions has not made the IMF's job any easier; indeed, there is even some danger that the recent agreement on a first credit tranche might be jeopardized by the Government's exceeding the credit ceiling agreed to for the end of FY79.

6. The original formal request for additional program support from the Bank was made during Minister Mtei's meeting with you during the Annual Meeting last September; this issue was raised again during my visit to Tanzania in January. In my discussions in January I first emphasized the general need for a review and revision of the last two years of the Tanzanian's Third Five-Year Plan (1979/80 and 1980/81). This revision must reflect the constraints now facing the Government and will probably require significant reductions in real investment from the original proposals. We have also cited the urgent need for a more aggressive export policy. While the Tanzanians have accepted this in principle and have carried out a 10% devaluation in mid-January and have made significant increases in the producer prices of export crops during last year's agricultural price review, more needs to be done.

7. The final and more sensitive issue is the relationship between the Bank Group lending and an EFF. In view of their difficult relationship with the IMF, the Tanzanians have consistently sought to deal separately with the Bank and have reacted adversely to any suggestions of a linkage between these two institutions. We have approached this in two ways:

- i) We have emphasized that our focus on the investment and production issues cited above reflects the Bank's general understanding with the IMF that each institution should concentrate on its area of expertise. However, we have stressed to the Government our view that, in the absence of agreement on a policy package dealing with all the areas of concern cited by the IMF, we do not believe the balance of payments problem will be dealt with adequately. In addition, we have emphasized that, as we remain in general agreement with the IMF on the thrust of their analysis, we see no practical advantage in pursuing separate approaches.
- ii) We have also stressed that the IMF has been equipped with the EFF and the supplementary facility precisely to meet this kind of situation. The magnitude of the resource needs of the Government (a residual gap of about \$100-150 million per year over the next five years is projected if Tanzania is to meet essential import needs) cannot be met through Bank Group resources alone. Therefore, if we were to proceed in the absence of an EFF, either the Government would have to arrange substantial commercial borrowings, or would be compelled to deal with the resource constraint in an ad hoc manner through a drastic reduction in import licenses. We cannot endorse either alternative. We are in fact concerned about recent reports of the increased use of short and medium term commercial borrowing by the Government to deal with the present crisis. In respect to the import liberalization program, introduced in 1977-78, the Bank of Tanzania has already drastically reduced the level of licenses; both we and the IMF feel that this reduction could wreck the modest recovery of the economy over the past two years.

In view of these factors, we continue to see an agreement with the IMF providing for access to higher tranches as absolutely essential to justify program lending by the Bank Group: without it the relatively modest size of any Bank Group operation would provide neither the funds for an adequate import level nor the latitude needed by the Government to carry out the medium term structural adjustments necessary. Therefore, while we have been sensitive to the problems of the Government with the IMF and have acted as a broker between the two in a number of instances, we have made it clear that the linkage is based on our view of what must be done to deal with the present problems facing the economy.

8. A complicating factor in all these discussions has been the war with Uganda. There is no question that the war has been costly to the Government. While exact figures on its cost are not available, it is

April 5, 1979

straining a budget that was already growing much faster than the rest of the economy. The IMF is closely following developments in this regard and it is expected that the May IMF mission will provide the first estimate of the effect of the war.

9. In summary, we feel that without the substantial assistance available from the IMF it will be extremely difficult for the Tanzanians to maintain their development program. During my January visit I expressed the Bank's willingness to work with the Government in the review of the development program in light of the present resource situation and in analyzing the other policy issues summarized above. While the unfortunate death of the Resident Representative, Lyle Hansen, reduces our ability to provide continuous analytic support to the Government, we have made arrangements for appropriate assistance if requested.

10. Outside of program lending there are no specific issues we wish to have raised at this time. However, you may wish to emphasize our continuing concern with project implementation. While the Treasury has made significant efforts in establishing the Project Implementation Review system and some progress in implementation is evident, this is an area where constant attention is critical. ←

cc: Mr. E. Stern

JWAdams/^{JW}FKing/^{9K}RGulhati/msg



12

OFFICE MEMORANDUM

TO: Files

DATE: February 11, 1980

FROM: Bengt G. Sandberg, Chief, EAIDA

SUBJECT: TANZANIA - Mr. McNamara's Visit to President Nyerere

1. Mr. McNamara called on President Nyerere at his home in Butiama on January 19, 1980. The others attending the meeting are listed in the attachment.

2. Mr. McNamara recalled that during a meeting of the Tanzania Cabinet in 1973 President Nyerere had stressed the need to produce results and not just words like the Arusha Declaration and noted that the Government had in fact produced impressive results in the face of great difficulty. Literacy, especially female literacy (an area the Bank was not even aware of in 1973), had been greatly enlarged. Food production had also expanded at a high rate. The achievements in the past several years showed that economic and social progress could take place while adjustments were being made in the face of external and internal economic difficulty.

3. President Nyerere agreed in general terms with this assessment. Great stress had been put on education; children were now going to school, although there was some doubt about the quality of education they were receiving. Adult education was also getting tremendous emphasis with the objective that the population should at least be literate. The President noted that there is no country in the world that is illiterate that is not also backward. Following the efforts in education the Government was now trying to improve other basic services.

4. With regard to food production Mr. Nyerere noted that the country expected to be self-sufficient this year. If great emphasis had not been put on this goal Tanzania would be in real trouble because its foreign exchange resources were not adequate to also finance large scale food imports. Now the Government could at least face the people since there was enough food for everybody. This did not mean that the situation was good: prices of everything were going up while wages had not been adjusted for five years and standards had therefore been reduced.

5. Mr. McNamara commented (and President Nyerere agreed) that many countries had problems and many were very similar to those facing Tanzania. There had been substantial change in the external conditions facing LDCs including the rapid increase in oil prices and the reductions in the growth rates of the OECD countries. Mr. McNamara stressed that these changes were permanent in character and required permanent changes by the oil importing countries. The required adjustments would obviously take time to make and would have to be financially supported by external sources to ensure that acceptable rates of growth could be maintained. The prospective current account deficits faced by oil importing countries was much larger than Mr. McNamara and the Bank staff had expected and could be dealt with only by reducing imports - and the rate of growth - or by a larger flow of assistance. What was required was an effort to restructure the economies of these countries combined with additional financial resources. The actions that were necessary would be difficult but had to be taken to overcome the

problems caused by the permanent changes in the international environment.

6. President Nyerere agreed that drastic measures were needed if the oil importing countries are to be able to move. He noted that Tanzania, and other countries, seemed to be in a vicious cycle, viz. in order to export they must first import. A massive push was needed to break the cycle. Tanzania needed to be assisted not for cosmetic reasons but for development purposes and in order to make the push needed for take-off. One measure advocated by some was to cut development expenditures. But where could these cuts be made when education, health services, water, etc. were still at minimal levels and many people went without these services. Pointing to the state of the Musoma-Butiama road ("... which could not be the worst in the country since it leads to the President's home ..."), Mr. Nyerere stressed the dilemma faced by Tanzania; enormous needs and limited resources.

7. Mr. McNamara emphasized that the Bank was prepared to work closely with the Treasury to ensure that any funds that the Bank might make available are actually used to deal with the problems facing the country. He assumed that the President would not wish to see such funds wasted and stressed that the objective should be structural change. The Bank would have to adjust its thinking and accept that several - say three - structural adjustment loans would be required over a period of years, aimed specifically at enabling Tanzania to make the necessary changes. The first loan might be made in September (as a goal) to be followed by a second loan about a year later. President Nyerere agreed that this was a goal towards which the Bank and the Government should jointly work.

8. Again Mr. McNamara noted that many countries faced a similar situation and needed to undertake similar structural adjustments. While he realized that the war with Uganda was a unique occurrence, he pointed out that other countries had faced similarly unique problems and the Tanzania situation was, therefore, not altogether different. This did not mean that Tanzania was not in a very difficult, if not crisis, situation. In the first instance the problems were economic but they could lead to social and political difficulties at a later stage. The Bank's problem was to figure out how to best help to deal with the economic problems. It was working with several countries along the lines that Mr. McNamara had mentioned earlier. Mr. McNamara expressed his personal conviction that it was possible to make the required structural adjustments while maintaining the pace of economic and social progress.

9. Turning to the situation of the industrialized countries, Mr. McNamara said that on the political level the leaders of these countries perceived that something needed to be done to deal with the present changes in the international situation that he had referred to. On the economic level, however, the problems they faced were such that it was difficult to divert resources to assist the oil importing LDCs. Thus, they followed a policy of cutting aid while recognizing the need for increased assistance. Mr. McNamara noted that it is basically a case of Governments insisting that the needs of their own economies be taken care of first. In Mr.

McNamara's view the industrialized countries must simultaneously adjust their own economies to the new conditions and continue, or even increase, their assistance to LDCs to help them deal with their structural adjustment problems. While noting that the required action had not been agreed upon yet, Mr. McNamara said that he thought that these objectives were not inconsistent and could be achieved provided there was sufficient willingness to cooperate. In this connection, he was pleased that the Bank was making progress in increasing its resources - the Sixth Replenishment of IDA had been agreed (although Parliamentary action remained) at a level of \$12 billion over three years and so had a general increase of \$40 billion in the Bank's capital. These actions by the Governments had laid a solid foundation for the Bank's work. He also indicated that action was being taken in a number of countries which was consistent with the increased needs of the LDCs, e.g. in Germany it had been decided that the aid budget would be allowed to grow at twice the rate of Government expenditure in general. Thus there was no reason to be pessimistic about the future; concerned, yes but not pessimistic.

10. Finally, in response to a question from Mr. McNamara, President Nyerere confirmed that the basis for Tanzania's agricultural policy was the smallholder - the peasant. They were the people, the producers and it was their effort that was making Tanzania self-sufficient in food. The basis of Tanzania's economy was peasant agriculture and it had to be assisted. The President said that he would like to see more communal farming because he thought individual farms inefficient. He also noted the need for balance between food and export crops and the existence of competition between the two especially with regard to annual crops. He also agreed with Mr. Wapenhans that the off-farm environment, especially transport, presented the farmer with bottlenecks which limited production. In conclusion, Mr. Nyerere said that if the weather was good Tanzania would have sufficient food thanks to the efforts of the peasants.

BGS:mc
Attachment

ATTACHMENT

Amir Jamal	Minister of Finance
Kighoma Malima	Minister of Economic Planning
Mr. Wasiri	Regional Commissioner, Mara
Ernest Mulokozi	Principal Secretary to the Ministry of Finance
Professor Simon Mbilinyi	Economic Advisor to the President
Francis Byabato	Ministry of Finance
Mr. Namfua	Ministry of Foreign Affairs
Mr. Butiko	Personal Assistant to the President

IBRD Staff

Willi Wapenhans
William Clark
Caio Koch-Weser
Bengt G. Sandberg
Anil Gore

OFFICE MEMORANDUM

TO: Files

FROM: Anil Gore *AG*

SUBJECT: TANZANIA - President McNamara's Meeting with Mr. Jamal,
Minister of Finance

DATE February 5, 1980

1. President McNamara met Mr. Jamal in Musoma on January 19. The discussions mainly centered around Tanzania's current economic situation and possible assistance from the Bank to help deal with the situation. This memorandum summarizes the important points discussed during the meeting. A list of participants during the meeting is attached.
2. Welcoming Mr. McNamara, Mr. Jamal said that he was encouraged by the understanding showed by the Bank in the past in dealing with Tanzania's development objectives. Turning to the current critical economic situation in the country, Mr. Jamal said that his Ministry and the newly formed Ministry of Planning and Economic Affairs were conducting an indepth review of all major areas of the economy. He hoped to build a consensus within the Government during the next 12 months on measures that would be needed to deal with the current economic crisis. He said that Mr. Malima's 1/ appointment would strengthen his hands in this regard. He also observed that the Tanzanian economy meanwhile would progress at a minimum pace in the absence of significant additional resources.
3. Mr. McNamara said that he had noted the seriousness of Tanzania's problems. He complimented the Tanzanian leadership on the progress made (literacy rate, primary health and food production) during the past five years in spite of severe economic problems.
4. Mr. McNamara, however, observed that Tanzania was not the only country to currently confront serious economic problems. He said that the rapidly increasing oil prices and slow growth rates of OECD countries were permanent changes in the world environment. These changes had dramatically altered the economic situation for all countries and required permanent adjustments by all of them. He also noted that the changes in the world environment had affected the oil importing developing countries more severely and that their balance of payments deficits were now expected to be much larger than was anticipated two years ago.
5. Mr. McNamara said that while the Bank did not have answers to how to deal with this situation, international cooperation would clearly be necessary. Structural adjustments would have to be made by countries to their economies in the longer term and additional finance would have to be found to maintain economic and social progress at acceptable levels.

1/ Mr. Malima, former Dean of the Economic Faculty of the University of Dar es Salaam, was appointed Minister of Planning and Economic Affairs on January 6. He also holds the key post of General Secretary of the CCM Central Committee's Standing Committee for Economic Planning.

6. Against this background, Mr. McNamara said that the Bank was considering a new form of assistance called 'structural adjustment loans'. Such assistance would be quick disbursing and must be associated with a program of actions by recipient countries that, over time, would enable them to offset the effects of permanent changes in the world economy. For Tanzania, Mr. McNamara said that the Bank would be prepared to consider structural adjustment loans in several installments over the next five years: the first, by say September 1980. He indicated he would like to discuss with Mr. Jamal and subsequently with President Nyerere what would be required to justify this type of lending and cautioned that considerable work would have to be done in designing the structural adjustment loans. He then indicated that the Bank would be happy to assist Tanzania in this regard.

7. Mr. Jamal said that he would not argue with Mr. McNamara's perception of Tanzania's problems. He, however, urged the Bank to recognize that Tanzania's problems arose not only from the changes in the international environment mentioned by Mr. McNamara but also from the successive crises the country had faced during the past three years; the East African Community break-up in 1977, excessive rains in 1978/79 which damaged the country's fragile infrastructure, and the war with Amin's forces in 1979. Finally, the oil price increases in 1979 had resulted in Tanzania paying about 40% of its export earnings on oil. In view of this he emphasized that while Tanzania was affected by changes in the world environment, its problems were special and would need special consideration.

8. Mr. Jamal said that the review of the economy by his Ministry and the Ministry of Planning (para 2) was expected to help identify problems and to recommend appropriate corrective (including structural adjustment) measures. He and Mr. Malima would then have to persuade their colleagues in the Government to implement these corrective measures. Mr. Jamal cautioned that this exercise would take time. But meanwhile, the economy's resilience had been destroyed by the successive crises and the economy was caught in a vicious cycle where the balance of payments problems reduced the country's inputs which in turn affected its ability to export, thus further aggravating the balance of payments problem. He stressed that immediate assistance would be necessary to break this vicious cycle, even before the analysis of problems was carried out and recommended solutions implemented. While he understood the need for developing and identifying a program of actions to deal with the situation, the gravity of which was fully recognized, Mr. Jamal expressed his hope that assistance be given quickly even if all that could be was to identify the areas of concern. He called the situation a matter of "survival" and compared the immediate assistance needed to "a blood transfusion, while measures were being taken to prevent hemorrhage."

9. Mr. McNamara said that he recognized that Tanzania had special problems and as a result, Tanzania would probably need larger assistance and over a longer adjustment period. However, he believed that dealing with these problems would require actions which were not too dissimilar over time from those that would be necessary even without the special problems.

For example, Tanzania could not sustain the current high budget and current deficits, and the Government would have to develop and implement a program of actions that would reduce these deficits over time to acceptable levels. Further, the balance of payments deficit would need to be corrected, not by reducing imports further, but by a program to help reverse the declining cash crop production. Mr. McNamara also pointed out that the Bank assistance was in fact Government's own resource and that it was in the Government's own interest to ensure that such assistance was used effectively to support a program of actions which over time would reduce the economic imbalances and, at the same time, maintain social and economic progress at an acceptable pace. He said, that, on its part, the Bank would want such a program to assure that the Bank assistance was being used to move in an agreed direction.

10. Finally, Mr. McNamara and Mr. Jamal agreed that Mr. Wapenhans would visit Tanzania January 28-31 to follow up discussions during the meeting.

Cleared with and cc: Mr. Sandberg

cc: Messrs. Clark, Koch-Weser, Wapenhans, Gulhati, Kraske, Adler, O'Brien, King/Baird, Ramadan/Berger/Calderisi

G/pa

Attachment: Attendance List

ATTENDANCE LIST

Bank Group

R. S. McNamara
W. A. Wapenhans
W. Clark
B. G. Sandberg
C. K. Koch-Weser
A. Gore

Government of Tanzania

A. Jamal
K. Malima
E. Mulokozi
Mbilinyi
F. Byabato
Wasiri
Madinga

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 16, 1980

FROM: Bengt G. Sandberg, Division Chief, EAIDA

SUBJECT: TANZANIA - Meeting of Delegation with Mr. McNamara

1. Mr. Amir Jamal, Minister of Finance of Tanzania, called on Mr. McNamara on September 27, 1980. He was accompanied by Messrs. Fulgencio Kazaura, Principal Secretary in the Ministry of Finance, F. Mbagi, Principal Secretary in the Ministry of Planning and Economic Affairs, Paul Bomani, Tanzania's Ambassador to the United States and D.G. Rwegasira, Chief Economist of the Bank of Tanzania. Messrs. Stern, Wapenhans, Kraske, Lafourcade and Sandberg were also present.

2. Mr. McNamara said that the structural adjustment program proposed by the Government and recently given to the Bank was a very ambitious one and its objectives seemed impossible to achieve. He stressed that any targets agreed on needed to be realistic in all respects and within the Government's implementation capabilities. Even if the proposed measures were politically possible they would be very difficult to implement. The Bank was very anxious to assist but could only do so if realistic targets were agreed. To achieve this, Mr. McNamara suggested that an appraisal mission visit Tanzania at a mutually convenient time; before the arrival of the mission the Bank would analyze the documents, make tentative comments and raise questions to which answers would be prepared for the mission.

3. In response to Mr. Jamal's request for an example of an unrealistic objective, Mr. McNamara said that he did not think that the budget deficit, which had been equal to some 7% of GDP, could be turned into a surplus in the course of a year or two. He also felt that the 7% projected growth rate of exports would be very difficult or impossible to achieve.

4. Mr. Jamal argued that these objectives were only unrealistic because the resources needed to fully utilize existing production capacities had not been forthcoming. Tanzania had been denied the financial resources it needed; there had been footdragging and excessive anxiety on the part of donors. In response, Mr. McNamara denied that there had been any unnecessary slowness on the part of the Bank and added that the increase in external financing expected by the Government would not come through. Mr. Jamal noted that this would be unfair and would prevent the Government from carrying out its program.

5. Mr. McNamara and Mr. Stern both again stressed the need to set realistic targets. The Executive Directors should not be misled about what could be achieved. These considerations were particularly important because any agreement between the Government and the Bank would be public; there were already problems in other countries where unrealistic targets made it difficult to release second tranches or make follow-up loans. Finally, Mr. McNamara noted that there was much opposition to Bank Group lending for Structural Adjustment expressed, for example, in the unwillingness to regard these operations as additional to the Bank's normal business and

October 16, 1980

to provide the necessary additional resources. In this context, it was important not to give the critics additional ammunition by setting targets which could not be reached thus putting the Borrower in default.

6. In response, Mr. Jamal deplored the fact that the Bank did not have the necessary resources and noted that there was a contradiction in the attitudes of the donor community. The problem faced by the developing, and particularly African, countries was recognized and there was talk about special efforts to help them, but nothing was being done and the clock was moving rapidly against the developing countries. In the case of Tanzania, the issue was speed; even the IMF standby was not enough to finance the gap and speedy action on the part of others were required.

7. Mr. McNamara reiterated that the Bank now proposed to move quickly and would send a mission as soon as mutually convenient. He suggested, and Mr. Jamal agreed, that meetings should be held in the course of the week to pinpoint open questions and agree on the timing of the mission. Any remaining questions would be submitted in writing to the Government for answers to be prepared before arrival of the mission.

Cleared with and cc: Mr. Kraske (EAL)

cc: Mr. McNamara's Office (2); Mr. Stern (VPO)
Messrs. Wapenhans (EANVP); Adler, Bronfman, Hendry (EAP);
Gore, Calderisi, Mrs. Berger (EAL)
Madinga (EDS)
Nooter/Kwaku

BGSandberg:lrd

OFFICE MEMORANDUM

TO: Files

DATE: June 1, 1981

FROM: Robert Calderisi, Loan Officer, EAIDA *Mc.*SUBJECT: TANZANIA - Meeting between Mr. McNamara and Ambassador Bomani

1. Mr. McNamara and His Excellency Paul Bomani, Ambassador of the United Republic of Tanzania to the United States, met briefly on May 29 at 6.30 p.m., at the Ambassador's request. The main purpose of the meeting was to deliver a reply from President Nyerere to Mr. McNamara's letter of March 11, concerning the preparation of comprehensive measures for economic recovery and structural reform in Tanzania. Mr. McNamara thanked the Ambassador for the letter and said that he would study it carefully.

06/83

2. Mr. Bomani said that he had been asked to convey three points to Mr. McNamara, in addition to the letter. First, President Nyerere was hopeful that, having agreed on the need for an Advisory Group, both the Government and the Bank could act promptly in setting it up. If Mr. Michanek was not available to head the Group, President Nyerere hoped that someone of similar views and competence could be identified and recruited quickly for the task. Second, while the Group would concentrate on what could be done in the medium and long term to restore some health to the economy, it was hoped that the Bank would continue with its plans to provide further financial assistance to the country to help tide it over the immediate crisis. While the Export Rehabilitation Program had been helpful, it would not provide sufficient financial relief over the next six months. Third, the Government hoped that approval of the Mara Rural Development and Telecommunications projects could be proceeded with as soon as possible. The northwestern regions of the country had been seriously affected by drought conditions this year, and the Mara project would help to offset the effects of poor weather on production and marketing in the future.

3. Mr. Wapenhans explained that a decision had been taken to proceed with the Board presentation for the Telecommunications project in June, but that a decision on the timing of the Mara project awaited supplementary information on the 1981/82 Annual Plan. The documents for the latter project, however, were virtually ready for distribution to the Executive Directors.

4. Mr. McNamara concluded the meeting by reminding the Ambassador that overdue service payments had become a serious matter again and that Bank Group disbursements might have to be suspended, if all payments were not made by June 12.

Cleared by and cc: Mr. Kraske

cc: Messrs. Wapenhans, Sandberg, Eccles, Baird, King, Waide,
Gore, Lafourcade.

Mesdames Johnson-Sirleaf, Lele, Berger (o/r), Arevalo

RCalderisi:imn

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
 THROUGH: Ernest Stern, SVPO
 FROM: Willi A. Wapenhans, RVP EAN
 SUBJECT: Meeting with Ambassador Bomani

DATE: May 29, 1981

*must support document
 submitted by 6/12*

1. Mr. Paul Bomani, the Tanzanian Ambassador, has an appointment with you today, at 6:30 p.m. We expect that Ambassador Bomani is coming to deliver President Nyerere's response to your letter of March 11. For your ready reference, I attach a copy of your letter. We have received an advance copy of President Nyerere's response which I also attach.
2. You will recall that in your letter you expressed concern about the serious economic situation of Tanzania and suggested that there was a need for a thorough review of the situation and the finalization of a program designed to deal with Tanzania's problems. You proposed for this purpose that President Nyerere might find it useful to have the advice of a group of international experts. You indicated that the Bank would be happy to assist in organizing such a group. This proposal was further discussed during my visit to Tanzania in mid-March. Most recently Bevan Waide pursued this matter further in Tanzania and discussed both suitable candidates who might join this group as well as the modus operandi of the group. Following these discussions, Bevan Waide left behind specific proposals to which we expect a response in due course. You may wish to tell the Ambassador that we look forward to the Government's early reaction to these proposals.
3. President Nyerere's reaction to your proposal has been very positive. His letter now confirms his acceptance of the Advisory Group. He is suggesting that the focus of the Advisory Group should be on helping the Government develop a medium- and longer-term program and strategy for Tanzania. In addition, he expresses the view at the conclusion of the letter that further Bank assistance must not be made dependent on the completion of the work of the Advisory Group. This clearly represents Finance Minister Jamal's often expressed concern that the transfusion of readily usable external assistance is essential to tide the country over the immediate crisis and is thus a precondition for successful structural adjustment and reform.
4. It might be useful if in your response to the Ambassador you could emphasize that the recent sector-focused Export Rehabilitation Credit was given on the understanding that it would lead into a comprehensive adjustment process and that the follow-up operation would have to be in support of a broad-based structural economic reform program. It was with this objective in mind that we agreed in a Memorandum of Understanding the steps needed to develop a relevant program. These involved a review and revision of

the public investment program, review and revision of the recurrent budget to provide adequately for the requirements of operation and maintenance, improvement of the system for foreign exchange budgeting and import allocations, review of the functions and responsibilities of parastatal organizations, review of incentives and disincentives to small-holder agriculture, preparation of legislation to establish a link between productivity and wages - to name only the most important of the measures. Completion of this work was expected sometime this fall. It may be useful to remind the Ambassador that we still regard a program incorporating the various elements listed in the Memorandum of Understanding as the essential prerequisite for a further program-type loan. You may recall that the Memorandum of Understanding also reconfirms Tanzania's intention to retain access to the IMF facilities. At present there is a stand-by agreement in existence; however, because of the prevailing arrears situation and Government's failure to observe the various credit ceilings, Tanzania is now ineligible to draw. A further IMF mission is planned for this summer to review the situation and discuss the elements of suitable stabilization program. Meanwhile a further drawing on the Compensatory Financing Facility is being processed and will be considered by the IMF Board on June 1.

5. You may wish to assure Ambassador Bomani that we are attaching the greatest priority to the organization of the Advisory Group. We are hopeful that the Group could start work in Tanzania in August as suggested by President Nyerere so that the Group's work would in fact benefit the preparation and appraisal of a structural adjustment credit. We have been in close contact with Ambassador Bomani throughout the processing of the Export Rehabilitation Credit. As a former Planning Minister, he is keenly aware of Tanzania's economic problems and supportive of the idea that an outside advisory group should be very helpful to bring the political leadership of the country as represented by the party's Central Committee to focus on a clear analysis of the situation and the essential remedies. We expect to continue working closely with Ambassador Bomani and to keep him fully briefed.

6. You should also know that I have yesterday cabled Minister Jamal that we will suspend disbursement of our current loans and credits unless Tanzania clears up by June 12 the arrears in service payments which have been accumulating in the past several months. It would be helpful if you could emphasize to the Ambassador the importance of settling this arrears problem as a matter of great urgency.

Attachments

cc: Mr. Calderisi

JKraske:ad



THE TREASURY,
P.O. Box 9111,
DAR ES SALAAM.

THE UNITED REPUBLIC OF TANZANIA
THE MINISTER FOR FINANCE

8th May, 1981.

Mr. Bevan Waide,
Director, Development Policy,
The World Bank,
1818 H. Street, N.W.
Washington D.C. 20433, U.S.A.

Dear Mr. Waide,

On my return from overseas I have just seen your letter of April 30. It is a pleasant surprise.

I hasten to say that following Mr. Mc-Namara's letter to the President suggesting the putting together of a group, it was my impression that the President wanted to be absolutely sure of how the greatly delayed (and therefore of diminished value) application for the Export Rehabilitation loan was at last going to fare before responding to the suggestion. Since the World Bank Board decision, I have not seen a follow-up on this score as yet, and wonder if your visit cannot be put off for a while, especially as you are speaking of helping to "get it off the ground."

I am of course most anxious that we do everything possible to mobilise resources required to meet our development needs. However, you will agree that an "Advisory group," idea is a novel one, at least for Tanzania. If a thing is worth doing at all, it is worth doing, well they say !

With warm regards.

Yours sincerely,

A.H. Jamaal
MINISTER FOR FINANCE

12th May, 1981.

Mr. Robert McNamara
President,
The World Bank,
Washington D.C. 20433
U.S.A.

Dear Mr. McNamara,

I am ashamed to realize that I have not until now answered your letter of 11th March 1981, which was brought to me by Mr. Wapenhans the day before I left for the Far East. I am sure however that Mr. Wapenhans will have fully reported to you the discussion I had with him, and those which he subsequently held with the Prime Minister and relevant Ministers.

Despite my delay in replying, I want to assure you that I did - and do - appreciate the tone of your letter. Even had I not known you I would have realized that it was sent by a person who understands Tanzania's purposes and sympathises with them while being very concerned about our current economic position and those failures of ours which contribute to it in some degree. Certainly your own sympathetic approach to Tanzania and its problems makes us give any of your suggestions the most careful consideration.

The suggestion in your March letter, that there should be a World Bank organized 'Group of Advisers' to assist us in drawing up a programme of action is a case in point. You did not make our acceptance of such a Group a condition for assistance from the World Bank. Had it been a condition we would certainly have had to reject it; as it is I am happy to say that we have no objection to the principle, and agree that it might be helpful.

The questions which remain, therefore, relate first to the calibre and the attitudes of the members of the group, secondly to the manner in which they function within our governmental and decision-making processes, and thirdly to the timing of their arrival.

On the first point you have set out the qualifications we would require when you talk of a group "composed of

internationally recognised experts, knowledgeable of Tanzania's problems and sympathetic to Tanzania's development objectives." I could have nothing to add to such a description! I understand that in his discussions with our Minister for Finance, Mr. Wapenhans put forward the name of Mr. Michanek of Sweden as a possible leader for the proposed Advisory Group. He would certainly fulfil the qualifications you set out and therefore be acceptable to us. The other members would presumably be selected by the leader of the Group in consultation with us.

The manner in which the Group should function is also, I think, implicit in your letter when you say that the purpose is to enable us to "consider an integrated set of recommendations in the shortest possible time". Indeed, I understand that as a result of discussions held when Mr. Wapenhans was here we are agreed that they should operate as a Group, from within the Ministry of Economic Planning and Development, and for the agreed period necessary to complete the task with which they are entrusted. They would thus have unrestricted opportunity to discuss matters with the Principal Secretary in that Ministry, and with his assistance and backing be able to hold discussions as necessary with other decision-making Officials and Ministers.

As regards the Group's arrival to begin work, I imagine Mr. Michanek, or whoever else is agreed upon as the Leader if he is not available, would want to begin his consultations as soon as possible, and that is quite acceptable to us. However, from now until the end of July the Tanzanian economic Ministers and Officials are going to be more than fully occupied with the preparations, the passing through Parliament, and the implementation, of the Budget and the reorganization measures which we have been working on for the past weeks and months. I suggest, therefore, that we should think in terms of the Advisory Group coming to begin work in August or as soon thereafter as possible. It will then be possible for us to service them and for them to have consultations with the kind of people they will need to meet.

There is only one other point I feel the need to add. Such an Advisory Group would be helping us with the progress of our programme of rehabilitation and any necessary structural change, - a programme which as I have mentioned (and as you state earlier in your letter, we have already begun to work on. That

That means that it will be dealing with the medium and long-term needs of the country - a very necessary process! But we still have to get through the short term, and the present crisis. We have in the last two weeks or so received the World Bank assistance about which we spoke when you kindly came to Butiana to see me in January 1980. In the intervening fourteen or fifteen months the negative multiplier effect has been operating viciously on our economy. Yet while the Tanzanian problems have got worse, the real value of that amount of assistance has declined considerably! So I hope that our present short term needs will not be ignored by the Bank because of this assistance with the preparations for dealing with the longer term outlook.

My very warm personal good wishes come with this letter. I hope your impending resignation from your present office will not be the end of personal contact - and personal cooperation - between us.

Yours sincerely,

Julius Nyerere

N.O.O.Z

Copy to: Ndugu C. Msuya
Prime Minister.

" Ndugu Amir Jamal
Minister for Finance,
P.O. Box 9111,
DSM

" Ndugu Kighoma Malima
Minister for Economic Planning and
Development,
DSM.

March 11, 1981

President Julius Nyerere
State House
Dar-es-Salaam
Tanzania

Dear Mr. President:

Since we met in Butiama a year ago, I have frequently thought about the economic crisis facing Tanzania. I am pleased that it was possible to conclude negotiations of an Export Rehabilitation Credit and reach agreement on the draft documents. However, this credit and the program it supports is only a first step in resolving some of the very serious economic problems which are facing your country. I am, therefore, especially glad that it was possible during the negotiations to agree on a number of realistic objectives for the near-term, and to lay these down in a Memorandum of Understanding.

You are aware of the commitment which the Bank has to support Tanzania in achieving the important objectives of social and economic progress which you have set for your country. It is furthermore a commitment which I know is shared and supported by many of the industrialized countries which have been impressed by the dedication of your Government to finding workable solutions to overcoming the complex problems of backwardness and poverty. It is this sense of commitment to your goals which now leads me to write to you personally to express the concern we and others of your supporters feel regarding the problems faced by the Tanzanian economy.

The achievement of your social and economic objectives requires, as you have often stated yourself, a steadily rising level of production in the economy and particularly of agricultural production. Yet, in the past several years, production has hardly grown, and food crop production has stagnated or even declined. Especially worrisome, because of its implications for the availability of critical imports, has been the persistent gradual decline over the last decade in the production and export of cash crops to a current level which is only two thirds of that achieved in 1966. The current crisis is disrupting Tanzania's development efforts and, at the same time, threatens the effectiveness of external assistance. For example, even the execution of high priority projects is increasingly hindered by economy-wide constraints.

March 11, 1981

I am, of course, aware that several extraneous factors, such as the war in Uganda, the rapid increase in international prices, especially of oil, and poor rainfall in the last couple of years, have seriously affected performance of the Tanzanian economy. However, there also are causes of the current crisis which are in Tanzania's power to remedy through appropriate changes in economic policies and in the investment strategy. The necessary economic rehabilitation cannot be achieved without a thorough re-evaluation of the policy regime and the institutional and administrative system. I understand that your Government has taken steps to initiate such a re-evaluation. The Minister of Finance, in his letter to me of last September, already reported on a number of changes under consideration. In this connection, I was also pleased that your Government could agree with the IMF last year on a program to reduce the very large fiscal deficit of recent years. I hope that it will be possible to implement this program successfully.

The program for export promotion, which your Government has formulated, and which we are supporting through the proposed Export Rehabilitation Credit, is a start in beginning to deal with the serious constraints to the sustained increase in agricultural production for exports. However, the measures which are now being taken are only first steps and, by themselves, not sufficient for the broader resumption of growth in the economy and the progress in economic and social development which this will support. What is required to achieve this is a program of wide-ranging measures to promote efficiency in the use of the country's existing productive potential and a re-ordering of investment priorities in favor of quick-yielding ventures.

The Memorandum of Understanding, which we agreed to in the context of the Export Rehabilitation Credit, sets out a practical way of initiating a program of rehabilitation and structural change. In view of the complex and interrelated nature of the reform measures required, you may wish to consider the appointment of a group of advisers to examine the major issues of reform and to assist in drawing up a program of action. Such a group, composed of internationally-recognized experts, knowledgeable of Tanzania's problems and sympathetic to Tanzania's development objectives, could enable you, and your Cabinet, to consider an integrated set of recommendations in the shortest possible time.

Such a program of structural change, reflective of Tanzania's policy objectives and consistent with the constraints imposed by the current crisis, could serve as the basis for mobilizing the necessary support, both from the Bank and other sources of finance. The Bank would be pleased to assist in organizing such a group of advisers, if this is desired. Once an appropriate economic program is completed we would also be prepared to work with your Government to mobilize financial support for it.

I have asked Mr. Wapenhans to deliver this letter to you personally. He will be available to discuss the suggested course of action further and to work out with your senior officials the necessary details. I would be very happy indeed if we could be of assistance to your Government in formulating and implementing the necessary comprehensive program of recovery and structural change.

With warm personal regards,

Sincerely,

Signed on March 10, 1981

Robert S. McNamara

cc: Messrs. Stern, SVPO
Please, VPO
Wapenhans, RVPEAN
Kraske, EAL
Sandberg, EALDA
Ms. Lele, EAPSA

JKraske:WAWapenhans:EStern:mh
3/10/81