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Minutes of the Loan Committee Meeting to consider Tanzania - Proposed Multisector Rehabilitation Credit held on July 21, 1986, in Conference Room E-1208

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LOAN COMMITTEE

LC/M/86/24
August 5, 1986

Minutes of the Loan Committee Meeting to consider
Tanzania - Proposed Multisector Rehabilitation Credit
held on July 21, 1986, in Conference Room E-1208

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WBG ARCHIVES

A. Present

Committee:

Chairman: Mr. Stern
Finance: Mr. Asanuma
Legal: Mr. Shihata
ERS: Ms. Krueger
OPS: Mr. Husain
Region: Mr. Kraske

Others

Messrs. Goldberg
Ridley-Nelson
Rogers
Choksi
McMullen
Mwine
Christoffersen
Greene
Agueh
Isenman
Porter
Stevens
Kaufman
Wambia
Artus (IMF)
Abdi (IMF)
Mmes Fox
Donovan
Adu

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Senior Vice President, Finance
Vice President & General Counsel
Vice President, Operations Policy
Regional Vice President concerned*
Vice President, Energy & Industry (for lending
in these sectors and SALs)
Vice President, Economics and Research (for non-
project lending)

OTHERS

Standard (see OMS 9.25 page 7)

*Copy to all other Regional Vice Presidents

B. Issues

1. The meeting was called to discuss the proposals in Mr. Jaycox's memorandum of July 15, 1986, for a multisector rehabilitation credit to Tanzania. The discussion focussed primarily on the issues raised in the Country Policy Department's memorandum of July 18, 1986.

C. Discussion
Government Commitment

2. The Region stressed that the agreement between the IMF and the Tanzanian Government had taken a long time to achieve, but was a major breakthrough in efforts to rehabilitate the economy. The Bank should now support the reform process by assisting the Government in developing appropriate sectoral policies as well as by providing quick disbursing assistance to meet immediate import requirements. But it should be recognized that progress to date owed much to the energetic efforts of a group of reform minded Ministers and officials and that there was still considerable political sensitivity concerning the reform program. The Region was, however, reasonably confident that the forthcoming mission would be able to make further progress in the development of sectoral policies. The Chairman stressed that the understandings reached by the mission on future policy directions would need to be set down in a letter of development policy which must cover macro as well as sectoral issues and policies.

Foreign Exchange Regime

3. The meeting discussed the future foreign exchange regime and the progress being made to achieve an equilibrium exchange rate, (defined as the rate at which Tanzania would be able to achieve a sustainable balance of payments position with minimal administrative restrictions). The IMF representative stated that the Government was committed under the proposed standby to major reviews of the exchange rate in early and mid 1987 and to the achievement of an equilibrium rate by mid 1988. The Chairman stressed that this was a critical element of the package which should be reflected in the letter of development policy. The letter of development policy should also stress that as they move towards this equilibrium rate, the Government would move away from quantitative restrictions on trade and foreign exchange and toward greater use of tariffs, and other indirect levers.

External Debt

4. The meeting discussed the substantial payments arrears of Tanzania, including arrears to the IMF. The Region stated that it expected the arrears to the IMF would be paid off very quickly and that Tanzania would also be going to the Paris Club. The recent Consultative Group meeting suggested that, with some debt relief, Tanzania would be able to finance the proposed recovery program.

Interest Rates

5. The meeting agreed that the letter of development policy should include a commitment on movement toward and maintenance of positive real interest rates for all credits.

Agricultural Sector

6. The meeting discussed the future framework for producer prices and agricultural marketing in Tanzania. The Region stated that the objective was to move to a system in which the official prices would be floor prices and agricultural marketing would be opened up to the private sector. The Government would, however, continue to license private traders. The meeting agreed that the letter of development policy should contain an explicit commitment to convert official prices to floor prices and to open up agricultural marketing to the private sector by the end of 1988. The Chairman also noted that, at the primary marketing stage, cooperatives should gradually become subject to competition from the private sector and that this should also be included in the letter of development policy. In regard to provision of agricultural inputs, the meeting agreed that the letter of development policy should contain a commitment that, within one year, the Government would license private traders for domestic marketing of all agricultural inputs, including fertilizer and seeds.

Industrial Sector

7. The meeting discussed the political feasibility of closing down enterprises and other measures to improve industrial efficiency. The Region stated that this would happen automatically under the proposed program unless the Government took explicit decisions to subsidize particular enterprises. The Chairman stressed that the forthcoming mission should agree with the Government on a framework for gradual liberalization and restructuring of the industrial sector.

Transport

8. The meeting noted that addressing the transport problem in Tanzania was critical to the achievement of a supply response. With regard to road transport, the Chairman stressed that ideally, there should be no price fixing and there should be free entry into the industry; as a minimum, it was essential that tariffs were reviewed frequently and were adequate to cover costs plus a reasonable profit for transport enterprises. It was recognized that the Government might wish to apply some licensing mechanism in transportation, but this should permit adequate competition.

Public Investment Program and Parastatal Efficiency

9. The Chairman stated that the mission needed to reach agreement with the Government on the whole of the 1986/87 development budget, not just the budgets for agriculture, industry and transport. He also stated that an action program for improving the efficiency of parastatals should be prepared before the Bank could consider another multisector rehabilitation credit for Tanzania and that this program should include specific

proposals for liquidating some enterprises, restructuring others, establishing contracts between the Government and parastatal enterprises, etc.

D. Conclusion

10. The Committee approved the regional proposal to appraise a multisector rehabilitation credit for Tanzania, subject to the points outlined above.