debate over how debt sustainability is determined and over the role played by fiscal policy, Tanzania's debt-service ratios are projected to remain well below acceptable thresholds over the medium term. Also, an IMF staff analysis demonstrates that Tanzania's projected fiscal stance should be consistent with debt sustainability as long as the government continues to have access to substantial donor financing on concessional terms at the current levels (4–5 percent of GDP). If donors were to gradually withdraw grant support, however, expenditures would have to be cut or revenues increased for the country to pursue a sustainable fiscal policy. This underscores the need for vigilance in the fiscal area, in particular the need to mobilize more revenue. In light of enhanced prospects for donor assistance, though, these risks appear rather remote at the moment.

More progress needed on poverty

Despite considerable achievements on the macroeconomic (including growth) and debt fronts, poverty has remained pervasive. As a 2001/02 household budget survey documented, the share of Tanzanians falling below the basic needs poverty line declined only 3 percentage points from 1991/92 to 2000/01 (dropping to 36 percent from 39 percent). And progress was uneven, with poverty rates showing virtually no decline in rural areas but dropping by 10 percentage points (to 18 percent from 28 percent) in Dar es Salaam.

The authorities are aware that if its social and economic goals are to be met, and the benefits of these goals are to be shared more widely, Tanzania must now take steps to further accelerate growth, contain inflation, enhance services, and generate income opportunities for the poor. There is thus a substantial reform agenda still to be taken up.

Increased donor assistance is expected to play a critical part in accomplishing these objectives, which are detailed in the country's Poverty Reduction Strategy Paper (PRSP). But increased aid will require additional reforms, chiefly to improve the country's absorptive capacity and the quality and effectiveness of its institutions (notably in providing reliable services and ensuring the rule of law). In addition, macroeconomic policies will have to be adapted to guard against possible upward pressure on the real exchange rate that will likely result from high aid flows.

Under the newly approved PRGF program with the IMF, the Tanzanian authorities seek to address these issues through a three-pronged strategy designed to mobilize revenues over the medium term, implement ambitious structural reforms, and further liberalize the trade regime.

Increase revenue. If Tanzania is to increase the robustness of its macroeconomic stability and limit the extent to which higher aid inflows increase liquidity, it will have to increase the amount of revenue the government collects. In this regard, the Tanzanian authorities have proposed a number of reforms to their tax system. A key one will be to integrate tax administration along functional lines rather than by type of tax. This should enhance the ability to cross-check taxpayer records and facilitate auditing.

The efficiency of tax administration is also expected to improve with initiatives to increase the threshold for the value-added tax and, in parallel, reform presumptive taxation for taxpayers below the threshold. In addition, self-assessment—one of the reforms included in a new income tax law that is to be submitted to parliament in October—could help free up administrative resources currently devoted to verifying the accuracy of submitted records and strengthen compliance over time.

Implement additional structural reforms. The principal aim of the next round of reforms will be to strengthen the domestic supply response, notably by improving the business environment. Measures will center on improved access to bank lending and financial sector reform, better governance, and streamlined procedures for business licensing. By October, the government intends to submit to parliament amendments to the Land Act aimed at removing obstacles to lending and facilitating access to bank credit for a much wider range of borrowers. The government also intends to adopt an action plan to reform and simplify the system for licensing businesses and take a number of steps to strengthen gov-

IMF solicits public comment on debt sustainability in low-income countries

To support low-income countries in achieving the Millennium Development Goals and help prevent a recurrence of debt problems that could undermine these objectives, the IMF, in collaboration with the World Bank and in consultation with donors and low-income countries, is working to develop a framework to guide low-income countries' borrowing. This framework would assist countries that have already received permanent debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative and other low-income countries where debt is potentially an issue.

As a first step, IMF staff have prepared a paper outlining and assessing some of the key issues that would need to be considered. The paper, "Debt Sustainability in Low-Income Countries—Toward a Forward-Looking Strategy," was discussed by the IMF's Executive Board on July 11 and has been posted on the IMF's website. Comments on the paper should be sent by e-mail to LICDebtSust@imf.org by September 30.

(For the full text of Press Release No. 03/115, see the IMF's website [www.imf.org].)

Tanzania must now take steps to further accelerate growth, contain inflation, enhance services, and generate income opportunities for the poor.

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