TANZANIA COALITION ON DEBT AND DEVELOPMENT
(TCDD)

MANAGEMENT OF AND JUSTIFICATION FOR PUBLIC DEBT IN TANZANIA

June, 2014

TABLE OF CONTENTS

LIST OF TABLES

LIST OF CHARTS AND FIGURES

LIST OF ACRONYMS

BOT	Bank of Tanzania
CAG	Controller and Auditor General
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
GLGGA	Government Loans, Guarantees and Grants Act
HESLB	Higher Education Students' Loan Board
ICT	Information and Communications Technology
LGA	Local Government Authority
MDAs	Ministries, Departments, and Agencies
MOI	Muhimbili Orthopaedic Institute
NDMC	National Debt Management Committee
NDS	National Debt Strategy
NIDA	National Identification Authority
PMG	Paymaster General
RAS	Regional Administrative Secretariat
SUKITA	Shirika la Uchumi, na Kilimo Tanzania
TCDD	Tanzania Coalition on Debt and Development
TMDMS	Tanzania Mid-Term Debt Management Strategy
TNDMC	Technical National Debt Management Committee

PREFACE

TCDD would like to take this opportunity to thank Mr. Christian H. Gama, a consultant who tirelessly worked hard to compile this desk research work on debt management in Tanzania.

This document assesses the fairness of Tanzania's public debt. By fairness TCDD means whether the purposes for which the debt is incurred justify its repayment by citizens. The purpose of the entire study was to determine whether government borrowing is done wisely, and if monies borrowed by government are invested wisely in projects beneficial to the Tanzanian citizens. Wise and responsible borrowing and wise investment are the only criteria that justify the citizen's obligation to pay for government debt. They may also be legitimate reasons for a national debate on whether a country like Tanzania, rich in natural resources, should continue to borrow.

TCDD examined in detail, many authentic reports of the Controller and Auditor General (CAG), bulletins of the Bank of Tanzania (BoT), a number of others from the Government, particularly Ministry of Finance, and the National Bureau of Statistics. This extensive document survey intended to establish four aspects, namely:

a) Current debt stock, its structure, and rate of growth;

b) Legal mandate to raise public debt – on whom it rests, by what authority, its extent/limitations and how it is practiced/executed;

c) Management of the debt – how it is raised, how it is disbursed and to whom, by what criteria, how its records are kept, who supervises projects funded by loan monies; and

d) Risk management – Government safeguards against creditor conditionalities, defaulting recipients of government guarantees, government officers impersonifying the officer mandated to contract loans, and against high debt/GDP ratio.

To address the four issues, the paper is structured the paper in five parts. Part I is introduction. Here it defines public debt, describes general methods governments use to raise it, and enumerates its component parts. In Part II the paper highlights Tanzania's current debt stock, its rate of increase, and explains the legal mandate used to raise it. In Part III the paper dwells on the legal framework for the management of government debt, i.e. the law and institutions that cover actual borrowing and issuance of government guarantees. Part IV is essentially an observation section covering justification for the current debt stock and government behaviour in relation toward dependency on and management of government debt. The paper ends with Part V in which the paper draws the conclusions and provides recommendations.

It is our hope that this report will receive the attention of different actors including the government of Tanzania and the public at large and that the recommendations contained in this report will be addressed and action taken to its fullest for the benefit of Tanzania citizens.

Hebron Mwakagenda

Executive Director

1

PART I: INTRODUCTION

Public debt refers to the current outstanding obligations for which the Central Government and its branches (Local Government and public enterprises) are responsible (CAG, 2013, Ishfaq M., 2010).Government borrowing is normally incurred to fill resource gaps between the revenue the government collects through taxes and other sources and its expenditure. Economic explanations in favour of government borrowing include development financing and financing of balance of payments. Other explanations why governments may borrow include their unwillingness to limit spending or increase taxes for fear of political consequences; to finance public works, especially when widespread unemployment exists (and is justified in part by their long-term social utility); and to meet emergencies such as natural disasters (floods, famines, landslides) and to finance war effort, debts that arise when it is difficult to raise funds by new or increased taxes (Ishfaq, M., op cit.).

Some African economic scholars and development activists like James K. Boyce, Léonce Ndikumana, John Hanlon and Dambisa Moyo (2011, 2010, 2009) argue that some governments, especially corrupt and dictatorial governments borrow to finance repressive machineries in order to bolster their power. Such loans are unfair, odious, and illegitimate. People are made to pay for what not only did not benefit them but worse, for what repressed them. They are a burden to the nation as their servicing is through heavier tax burdens, as their projects were non-productive projects. Reference to such loans is like those that were borrowed by the Zaire Government under Mobutu SeseSeko; Argentina under the military junta of the 1970s; and the Philippines under General Ferdinand Marcos (Ndikumana, L. & Boyce, J. K. 2000; Hanlon J., 2002). On the other hand, when borrowed funds are actually spent to finance development, they do not become a burden as their servicing is made out of their projects' returns.

Public debt or government debt is normally of two types, foreign debt and domestic debt. Foreign or external debt is normally in form of loans and grants. Domestic debt comprises of marketable and non-marketable securities. Marketable securities consist of Treasury bills and Treasury bonds whereas non-marketable securities comprise special bonds and stocks. Domestic loans in form of Treasury bills are generally for short-term government financing, and their obligations are outstanding for not more than 360 days. Loans in form of Treasury bonds are for a period of between 1 and 10 or more years (Ishfaq, ibid).

As per Tanzania's Debt Management Strategy (DMS) document (2011), the considered sources of external financing for the past two decades have been concessional[1] multilateral, semi-concessional bilateral, 10-year Eurobond, 7-year syndicated loan[2], and Export Credit Agency guaranteed commercial bank loans. Domestic financing took the form of Treasury bills and Treasury bonds. The 364 and 182-days Treasury bills are issued for both financing and liquidity management purposes whereas the 35 and 91-days Treasury bills are issued solely for liquidity management purposes (TDMS, p.5).

1 **Concessional loans** are loans that are extended on terms substantially more generous than market loans, i.e. at far lower than market rates, for longer terms, and with conditions which allow longer periods for repayment *(OECD Glossary of Statistical Terms, and Blackwell Reference Online)*

2 A **syndicated loan** is one that is provided by a group of lenders and is structured, arranged, and administered by one or several commercial banks or investment banks known as arrangers.

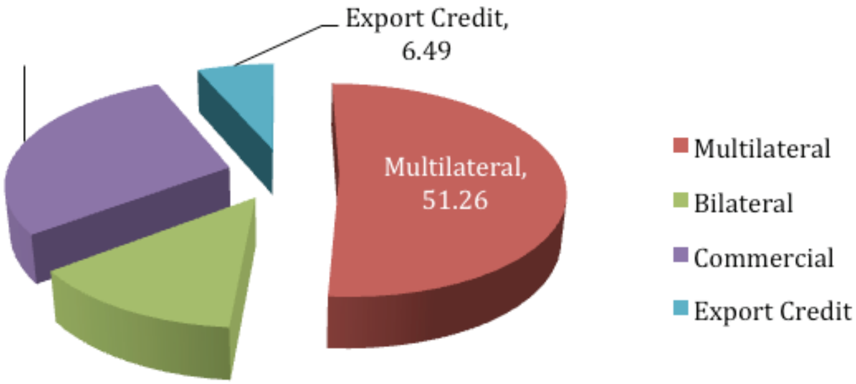
(OECD Glossary of Statistical Terms, and Blackwell Reference Online)

By March 2014, Tanzania's public debt stock stood at TShs.29, 285.3 billion (BoT-March 2014). This was an increase of TShs.4, 682.0 billion from March 2013; external debt having grown by TShs.3, 650.0 billion, and domestic debt by TShs.1, 031.7 billion (BoT, op cit.). Composition of the two debts as per creditor category and instruments used stood as follows:

Table 1: External Debt by Creditor Category

		Mar-13			Mar-14	
		Exchange rate: March 28, 2014 - $/1638.81				
		Figures: US$ in Millions; TSh in Billions				
CREDITOR		**US$**	**TSHS**		**US$**	**TSHS**
Multilateral		**6,024.40**	**9,872,846.96**		**7,128.90**	**11,682,912.61**
DOD		6,017.70	9,861,866.94		7,119.80	11,667,999.44
Interest Arrears		6.70	10,980.03		9.10	14,913.17
Bilateral		**1,748.60**	**2,865,623.17**		**1,864.10**	**3,054,905.72**
DOD		966.60	1,584,073.75		1,045.40	1,713,211.97
Interest Arrears		782.00	1,281,549.42		818.70	1,341,693.75
Commercial		**3,083.60**	**5,053,434.52**		**4,010.80**	**6,572,939.15**
DOD		2,501.00	4,098,663.81		3,451.80	5,656,844.36
Interest Arrears		582.50	954,606.83		559.00	916,094.79
Export Credit		**823.10**	**1,348,904.51**		**903.10**	**1,480,009.31**
DOD		695.90	1,140,447.88		751.30	1,231,237.95
Interest Arrears		127.30	208,620.51		151.80	248,771.36
External Debt Stock		**11,679.70**	**19,140,809.16**		**13,906.90**	**22,790,766.79**
Debt Growth in Currency					**2,227.20**	**3,649,957.63**
Debt Growth in per cent					**19.1**	
Note: DOD = Disbursed Outstanding Debt						
Source: Ministry of Finance and Bank of Tanzania						

Chart 1: Composition (in %) of External Debt by Creditor, as of March, 2014

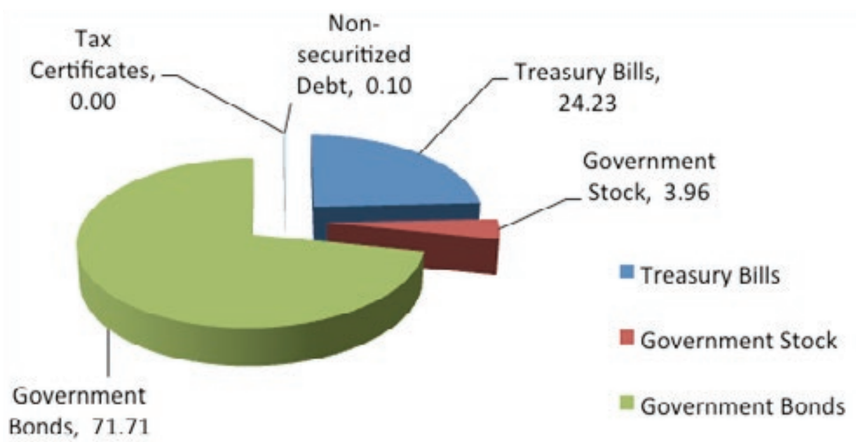


Source: Table 1 above

Table 2: Domestic Debt by Instruments

		Mar-13			Mar-14	
		Exchange rate: March 28, 2014 - $/1638.81				
		Figures: US$ in Millions; TSh in Billions				
		USD	TSHS.		USD	TSHS.
GOVERNMENT SECURITIES		3.33	5,453.10		3.96	6,488.00
Treasury Bills		0.73	1,192.10		0.96	1,573.90
Government Stock		0.16	257.10		0.16	257.10
Government Bonds		2.44	4,003.90		2.84	4,656.90
Tax Certificates		0.0001	0.10		0.0001	0.10
Non-securitized Debt		0.006	9.60		0.004	6.40
Total Domestic Debt		3.33	5,462.70		3.96	6,494.40
Interest Arrears		-	-		-	-
Domesti Debt Stock		**3.33**	**5,462.70**		**3.96**	**6,494.40**
Debt Growth in Currency					**0.63**	**1,031.70**
Debt Growth in per cent						**18.89**
Source: Ministry of Finance and Bank of Tanzania						

Chart 2: Composition (in %) of Domestic Debt by Instrument, as of March, 2014



Source: Table 2 above

Audit reports of the Controller and Auditor General (CAG), for the past four financial years (2009/10 -2012/13), show that external borrowing makes over 70% of all government borrowing and domestic debt makes the rest, around 28%. Additionally, Tanzania's public debt has been growing at an average rate of 29.51 per cent per annum; external debt growing at a rate of 31.55 per cent, and domestic debt at 24.16 per cent per annum, as the table below explains:

Table 3: Public Debt Growth Rate per year

Year	Foreign Debt (TShs.)	Domestic Debt (TShs.)	Total Debt (TShs)	Total Debt Growth (TShs)	Total Debt Growth in %	Foreign Debt Growth Rate in %	Domestic Debt Growth Rate in %
2009/2010	7,747.90	2,755.90	10,503.80	-	-	-	-
2010/2011	10,734.32	3,707.32	14,441.64	3,937.84	37.49	38.54	34.52
2011/2012	12,430.10	4,545.90	16,976.00	2,534.36	17.55	15.80	22.62
2012/2013	15,427.30	5,775.10	21,202.40	4,226.40	24.90	24.11	27.04
Mar-14	22,790.77	6,494.40	29,285.17	8,082.77	38.12	47.73	12.46
			Average Growth Rate/yr		29.51	31.55	24.16

Source: CAG Audit Reports and Bank of Tanzania Quarterly Bulletin, March 2014

Table 4: Total Debt Composition

Year	Foreign Debt as % of Total Debt	Domestic Debt as % of Total Debt
2009/2010	73.76	26.24
2010/2011	74.33	25.67
2011/2012	73.22	26.78
2012/2013	72.76	27.24
Mar-14	77.82	22.18
Average Debt Share	**74.38**	**25.62**

Source: Table 3 Above

At these rates of public debt growth, one would expect that both the mandate to the raising of these debts and the supervision of the expenditure of the same are carefully and stringently done, enough not to let down their final payers.

2

PART II: MANDATE TO RAISE AND MANAGE PUBLIC DEBT

Debt management in Tanzania is guided by Government Loans, Guarantees and Grants Act (GLGGA) Nr.30 of 1974 as amended in 2004, and the National Debt Strategy (NDS) of 2002. Sections 3 and 6 of the GLGGA confer authority upon the Minister for Finance to raise both, external and domestic loans, as well as to issue guarantees and receive grants for and on behalf of the Government of the United Republic of Tanzania. The specific functions of the Minister include:

a) Negotiating and borrowing on behalf of the Government;

b) Channelling resources to the targeted sectors;

c) Handling the administrative and strategic sides of debt management; and

d) Making resources available for repayment.

On raising loans, cection 25 (1) requires the Minister to have an annual debt strategy, a borrowing plan prepared and approved by the Government, and a debt and budget execution reports. Moreover, section 32 states that the authority conferred upon the Minister to borrow on behalf of the state shall be exercised in line with the debt management objectives of the National Debt Strategy. By Section 30, the Minister by order under his hand, is empowered to delegate to any public officer specified in the order:

a) his function under this Act relating to negotiating a loan; and

b) the authority to execute on behalf of the Government any agreement or other instrument relating to a loan or guarantee raised, or given under this Act.

With regard to the management of public debt, the current institutional set-up involves four key central institutions, namely: the Ministry of Finance; the Planning Commission; the Attorney General's Chambers; and the Bank of Tanzania. Sections 16 and 19 of the GLGGA enact two debt management committees, i.e. a National Debt Management Committee (NDMC), a purely advisory and coordination committee, and a Technical Debt Management Committee (TDMC), a committee that assists the NDMC to oversee the operational aspects of debt management.

Reading closely the Government's Loans, Guarantees, and Grants Act (1974, Rev. 2004), one discovers that the Act does not:

a. establish any specific institution/office charged with the management of the national debt;

b. specify the calibre of public officers which the minister may delegate authority to for purposes of contracting public loans in the case of his absence or failure;

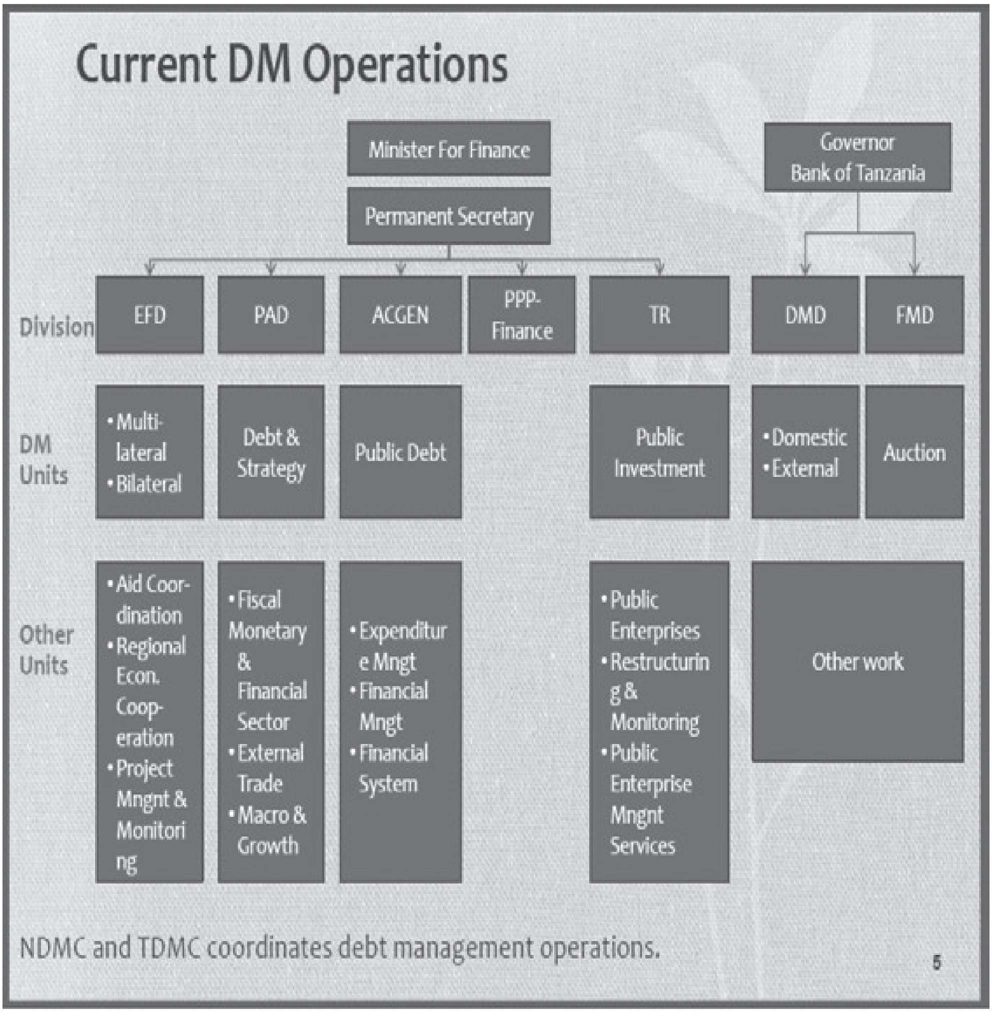
c. prescribe any sanction against an unauthorised public officers who may erroneously contract loans on behalf of the government;

d. specify limits in currency of guarantees a corporate body may be given, save only that the guarantee shall not be more than 70% of what it aims to borrow, and in some instances the minister may waive it;

e. specify the legal action to a defaulting company but leaves mandate in the hands of the National Debt Management Committee; and

f. Specify how projects funded by national debt may be followed up or supervised to ensure their required returns are realized.

Figure 1: Debt Management Structure in Tanzania



Source: Adapted from Nicholaus Shombe, *Debt Management Strategy and Legal Framework: Tanzania's Experience*, p.5

3

PART III: JUSTIFICATION FOR PUBLIC DEBT

A public debt is justifiable (fair to incur and repay) if it is raised by proper authority, is invested into known, productive projects, and if the projects are managed efficiently so as to bring back a net return to its payers. Public debt is of no value and, in actual fact repugnant, if it is raised by improper authority, is invested in non-productive projects or is committed to strengthen repressive machinery of the government for repressive intent, or finds its ways into the private pockets of economic thugs, wicked thieves, embezzlers, or swindlers. Such debt is odious and illegitimate.

Tanzania's Midterm Debt Management Strategy (TMDMS) declares that the government's reason for its enormous borrowing after the debt relief initiative of 2004 was its appetite to speed up development, particularly of infrastructure (TMDMS, pp. v, vi.). Records of the CAG, Bank of Tanzania and Ministry for Finance, for the period between 2010 and March 2014, reveal that total debt stock was TShs.29, 285.3 billion, and of this, net new debt was TShs.18,781.37 billion (by adding up annual debt increases). Bank of Tanzania, Quarterly Economic Review of December 2013 puts debt disbursements per use of funds as follows:

Table 5: Disbursed Debt by Use of Funds

	2010/11	2011/12	2012/13
Disbursed Debt by Use of Funds2	**7,843.70**	**8,873.00**	**10,693.40**
o/w Balance of payment support	2,348.50	2,522.00	2,533.90
Transport & Telecommunication	990.40	1,391.30	1,757.10
Agriculture	837.40	761.50	926.30
Energy & Mining	728.40	652.70	878.20
Industries	201.70	193.00	216.50
Social Welfare & Education	1,201.10	1,620.70	2,157.60
Finance and Insurance	188.90	326.50	344.60
Tourism	123.20	119.10	100.60
Others	1,224.20	1,286.30	1,778.60

When funds committed to the balancing of Balance of Payments, to social welfare and education, and finance and insurance are deducted from the table, funds remaining for development become 36% on the average, as we observe from the table below.

Table 6: Debt Disbursed for Development Projects between 2010 and 2013

	2010/11	2011/12	2012/13
Disbursed Debt by Use of Funds	**7,843.70**	**8,873.00**	**10,693.40**
Transport & Telecommunication	990.40	1,391.30	1,757.10
Agriculture	837.40	761.50	926.30
Energy & Mining	728.40	652.70	878.20
Industries	201.70	193.00	216.50
Tourism	123.20	119.10	100.60
Total of Development Budgets	**2,881.10**	**3,117.60**	**3,878.70**
Dev Budget as % of Total Debt	**37%**	**35%**	**36%**
		Average percentage share	**36%**

Source: BoT Quarterly Economic Bulletin, Dec. 2013

In its budget background and Medium Term Framework 2011/12-2013/14 (2011, p. xii) the Government acknowledges that there was slow execution in development spending in the years 2009/10 and 2010/11. Its primary reason was delays by foreign development partners to disburse their foreign project funds. The Government also notes that the overall execution rate of foreign funded component remained below 60 percent in especially both 2009/10 and 2010/11.One key reason for the delays, as per the Government, was that some partners like Japan, were just recovering from shocks of the financial meltdown of 2008-2010, and thus could honour their obligations either only in part or not at all. These remarks are either supported or do support data in table 5 below which reveal that not all budgeted development funds were indeed released.

Table 7: Funds Committed to Development Financing 2010-2013

Year	Dev. Budget Approved TShs. Billions	Dev. Funds Released TShs. Billions	Funds Not Released TShs. Billions	Unreleased Funds as % of Approved Budget	Funds Expended TShs. Billions	Funds not Expended TShs. Billions
2009/10	2,825.43	2,299.01	526.42	18.63	NA	NA
2010/11	3,750.70	2,223.70	1,527.00	40.71	NA	NA
2011/12	4,311.01	3,384.43	926.58	21.49	3,376.30	8.13
2012/13	4,224.70	3,247.53	977.17	23.13	3,203.10	44.43
2013/14	NA	NA	NA	NA	NA	NA
NA = Data were not available from neither the CAG nor BoTnor MoF						

Source: CAG Audit Reports for years in the Table

4

PART IV: DISCUSSION

It has been learnt that the Act governing public debt, i.e. the Government Loans, Guarantees and Grants Act of 1974 as revised in 2004, has a number of flaws. These flaws have horrendous consequences on the management of public debt and the financing of development projects.

i) Absence of a unified/central public debt management office

As of present, Tanzania's public debt is managed by two committees, the National Debt Management Committee (NDMC) and the Technical National Debt Management Committee (TNDMC), whose members are senior executives of nine different Ministries. This setup is detrimental to the management of public debt as each key player has his different core activities, and national debt is only secondary to them. Consequences of this absence of a central debt management office have been, in some cases, catastrophic for example:

(i) According to two senior government officers at the Ministry for Finance and the Bank of Tanzania respectively, there have been cases of unauthorised persons who had contracted loans without the consent of the Minister for Finance (Mwankenja and Lalika, 2001)[3]

(ii) According to the same officers and audit reports of the CAG, there have been cases of breach of legal limits of borrowing i.e. violation of Section 3, (a) and (b) of the GLGGA (1974) without sanctions applied on the perpetrators (Mwankenja and Lalika, op cit. CAG, 2010);

3 In 2001, Mwankenja, E. A. was Financial Management Officer/Legal, with the Ministry of Finance, and Lalika, S. J. was at the same time, Senior Legal Officer with Bank of Tanzania. The two together authored a paper :*The Institutional and Legal Framework for Public Debt Management in Tanzania* which they presented at a MEFMI/UNITAR workshop at Maseru Lesotho, in July 2001

(iii) According to the CAG, because of this lack of a unified public debt management office, and a central database, the government could not recover TShs.281, 864,968 from M/s. Ginaac Industries Ltd., and TShs.44, 062,788 from M/s. Mansoons Ltd as these companies no longer existed, and worse still, there were no details of collateral securities pledged against these loans (CAG 2010 Audit Report). This means that lack of central debt management unit is reason for loss or scatter of debt records.

(iv) But more than unauthorised officers contracting loans without the Minister's consent, there are also cases of public and private enterprises being given guarantees above ceiling amounts. "Pursuant to Sect.13 (1) (b) of the Government Loans, Guarantees and Grants Act of 1974 (revised 2004), the extent of the guarantee shall not exceed 70% of the amount borrowed". As of 30th June 2010, the Consolidated Financial Statements of the Government reported a total of Shs711, 804,989,096 as government guarantees, which represented 96.8% of total loans" (CAG, 2012 Audit Report p.). This meant that repayment of these entire loans now has become government's burden. Had there been a central public debt management office, such anomalies could be effectively detected and addressed.

(v) The CAG's 2009/2010 Audit Report also shows imbalances in outstanding guarantees in respect of parastatals. Whereas the Treasury Registrar reports guarantees issued of TShs.451, 927,787,912, for the year, National Consolidated Accounts show TShs.447, 987,521,547 thereby registering an unreconciled difference of Shs.3, 940,266,366. This does not only emphasise the importance of a central debt management office but also shows how the Government wastes hard gotten monies through careless management structures.

(vi) Absence of a unified debt management office has also led to questionable reporting of the public debt. According to the CAG's June 2012 Audit Report, the Government failed to include several debts in the debt portfolio thus making the debt position reported by the Government questionable. These unreported debts included a total of not less than two trillion shillings, as sum not small by whatever records! And by records, it does not seem that any of the borrowers are capable of repaying as they are not producing economic units like manufacturing or agriculture or mining.

Table 8: Debt unreported by Treasury Registrar

Institution Transferring Loan to Government	Debt (TShs billions)	Reason / Explanation
PSPF	716.6	Unpaid Govt Employees' Contributions
Air Tanzania	8.8	Unpaid to SA Airways, Citi Bank
Pension Funds	1,250.0	Borrowed from Pension Funds to construct UDOM, PCCB, Nelson Mandela University, Police Force Houses and vehicles
SUKITA, HESLB, MCU Etc.	254.0	Organizations under receivership or financially incapable to service guaranteed loans
Tanzania Fertilizer Co.	44.7	Govt. wilful acceptance to pay loan as per Paper Nr.28/2010-11 to CRDB and ACB banks
NIDA	75.0	NIDA's loan to Consortium of Pension Funds, and to NSSF
MOI	3.0	Loan from NHIF
Total Unreported loan position	**2,352.1**	

Source: CAG's Annual General Report, June 30th, 2012

(vi) According to the CAG again, because of lack of a debt monitoring organ, the government does not seem to care how it issues guarantees to corporate bodies. For instance, by 30th June, 2012, it had issued Export Credit Guarantees worth TShs.300, 100,925,004. By February 2012, out of this amount, guarantees amounting to TShs.78, 921,135,217.03 had already expired by their legal status, meaning that the obligation to repay those loans rests solely with the guarantor, i.e. the Government.

It is also known that, although the Bank of Tanzania is one among central institutions performing functions relating to public debt management including loan repayment and domestic financial market operations such as bond and Treasury bills auctions, it is doing so without having any formal agency agreement with the Government. The CAG warns that this is a dangerous relationship, as it may happen that in time of non-performance it will be difficult to make someone accountable. A written contract in this respect is essential.

The abovementioned errors tempt people to conclude that such violations of the law were neither by accident nor committed by public officers ignorant of the Act's structural errors. For it is inconceivable to see that although the Act has been contravened exceedingly in many ways, (and perhaps by known officers), yet no sanctions have been applied on any of the culprits – neither responsible ministers nor the known culprits (Mwankenja et al. ibid.).

The facts raised above have several implications:

1) Tanzania's public debt is possibly far bigger than what is known today;

2) Tanzania's Debt/GDP ratio is possibly already too high to make the country creditworthy;

3) Some Tanzania's public debt is odious and illegitimate as it is contracted by unauthorised officers, and is serving private, personal ends.

4) The country is possibly very vulnerable to debt combinations brought about by exchange rate behaviours in international financial markets.

b) **Misuse of Public Funds**

Absence of a full-time debt coordination office has partly opened room for government to waste borrowed funds instead of putting them to productive use. Almost all CAG's audit reports are full of complaints and descriptions of how the government loses money through theft, embezzlement, corruption, failure to collect loan repayments on guaranteed loans, and non compliance by MDAs and LGAs with professional financial and procurement guidelines.

Government failure to demand return of unspent amounts by MDAs and RASs to PMG was reported in almost all CAG's audit reports since the 2009/10 financial year. In 2009/2010 the CAG reported that as at 30th June, 2009 an unspent balance ofTShs.31, 948,316,299 was to be paid to PMG Account. However, of this amount, only TShs.126, 753,488 was reported to have been received as the unspent balance, and as for the difference of TShs.31,821,562,811, there was no trace of the monies as per the date of this report.

There also were cases of unexplained failures by the Treasury Registrar to release development funds, as is demonstrated in the 2009/2010 and 2010/2011 audit reports.

Table 9: Unreleased Development Funds

Financial Year	Development Budget Approved (TShs.)	Funds Released (TShs)	Variance in %
2009/10	2,825,431,400,000.00	2,299,010,652,135.00	(18.63)
2010/11	3,750,684,569,000.00	2,223,684,150,465.00	(40.71)

Source: CAG Audit Reports 2009/10, 2010/11

What this table means is that in these two financial years, development projects (which were principally debt funded) were under funded by 19% and 41% respectively, in 2009/10 and 2010/11. Although the Treasury reasons that this was due to failure by some foreign development partners to honour their commitments in part or in full, there is no evidence of the same from the CAG. Moreover there is no evidence if the sums unreleased had remained with the Treasury or not. In case this was, the next question would be whether the officers responsible had mandate to retain the sums. Additionally, a closer look at the year of worst under funding reveals that the year was a year for presidential and parliamentary elections. Could the sums have been diverted to national elections!?But the most important question is – how long shall Tanzania continue to depend on foreigners to fund their development?

It has been established by the CAG that most government funds are wasted through such practices as payment for undelivered goods and services, rising and unexplained employee allowances, payment of salaries to ghost workers; vehicle repairs and servicing outside the government agent TEMESA; and many other bad practices. In 2010/2011 financial year alone, these practices cost the Government a total of Tshs. 41.14 billion. Doing away with such illegal practices should relieve Tanzania with undeserved borrowing.

c) **Existence of dormant loan accounts**

In the 2012/13 financial year, the CAG discovered that seven lenders with amounts totalling TSh.1, 247.43 billion had their payments ceased since 1998 and there was no evidence to substantiate if there were any ongoing negotiations on cancellation or restructuring of the debts. This again stresses the importance of a debt coordination office, with a reliable database. More important is that there can be real worry that there are dishonest government officers cooperating with criminals behind the scenes cashing on these accounts!

d) **Higher concentration of commercial banks in the government stock**

One of the key motives of government domestic borrowing is to support financial markets at home (TDMS, p.1; GLGGA Section 8 (b), (c)). Players in these markets (primary and secondary) are expected to include all – government and private dealers, banking and non banking financial institutions alike.

As at 30th June, 2013 it was revealed that commercial banks held 48% of all government stock (in the primary market) as is shown in the chart below. In the view of the CAG (and financial development experts),commercial banks' overwhelming occupancy of government stock crowds out the secondary security markets, and incapacitates/inhibits private investors from investing in the secondary markets. The effects are a chain reaction:

i) Participation of financial intermediaries in the secondary markets remains weak, making them increasingly inactive as most of the commercial banks' funds get tied in the primary market;

ii) Commercial banks begin to become reluctant to lend to private sector investors partly because they prefer low risk instruments from primary financial markets. This denies the private sector resources for development;

iii) The practice hinders development of domestic secondary markets as it blocks investors who could enter and exit the market at their convenience.

5

PART V: CONCLUSIONS AND RECOMENDATIONS

MAJOR CONCLUSIONS

a) Lack of political will to establish a debt management office

One thing that is glaringly evident from this study is lack of political will on the part of this country's rulers to do away with borrowing. In the actual fact, they appear as though they are in love with it. For a poor country like Tanzania, one would expect that its people and particularly their government would be keen enough to make good of every opportunity and resource to fight poverty in their earnest. It is not believable to see the Government in the lead of violation of lucent advice of the Controller and Auditor General on public debt. It is also difficult to believe that violations on Government Loans, Guarantees and Grants Act (1974 rev. 2004) are violations of people ignorant of the law governing Government borrowing. It is more astounding to note that the law does not mention any sanction on violators, nor on methods of recovering debts in case loans guaranteed are not repaid. With debt management machinery scattered over ten ministries, no single office among them can be held responsible for national debt issues. One is tempted to think that it is for hidden selfish ends of the powers that be that the legal setup for national debt management is left the way it is!

b) Inadequacy of qualified and long-experienced personnel to manage the debt portfolios and government stock

Just as the need for a unified public debt management office is realised, so is the need to equip it with qualified and experienced staff. It is well understood that at the Ministry of Finance, two units are involved in the management of public debt, i.e. the Public Debt Unit in the Accountant General's Department, and the Debt Policy and Strategy Unit in the Policy Analysis Department. It is also understood that the Ministry has installed the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) to help both these units manage debt information more conveniently than before. However, other offices with public debt information are scattered across nine other ministries and departments. More still, debt management needs expertise of diverse types, from Accounting and Finance, to Contracting and Legal; strategic management; interpersonal (communication) skills; ICT, negotiation and lobbying skills; visualization; psychology; and several others. Whereas it is difficult for an individual to possess all these abilities alone, the Government ought to train and equip new personnel in all these and other fields and then bring them under one roof of a unified public debt management office. As of present, there is serious need of all these experts for debt management, and this is possibly one other reason that debt management is not as efficient as required.

c) Indiscipline and non-compliance with accounting and procurement standards

Not seldom is it when the CAG is complaining about government violation of professional legal, accounting and procurement standards and regulations. Good examples of these are loan contracting by anonymous cum unauthorised public officers; exceeding guarantee ceilings; charging expenditures to wrong accounts; misreporting debt accounts; refusal to retire imprest amounts; committing the government into debt with sums to tunes not allowed or unrealisable. Strict and frequent surprise inspections accompanied with visible punishment of culprits would serve adequate learning on the part of Accountants and Procurement Officers who wilfully breach the law.

d) Lack of Transparency

There is serious lack of transparency regarding public debt issues. There is stark exclusion of the civil society, even by proxy, in circles deciding on what to borrow, from whom and at what price! It is true that borrowing at national level is technical and complex. It is also true that there is very limited financial literacy among Tanzanians. This, not withstanding, however, the Government should not surely deny the beneficiaries, who also happen to be the final payers, their right to know what they are benefiting from and what they are paying for. Making debt contracting transparent would instil discipline and accountability on the part of the government on one side, and give greater power to parliament to oversee government actions. It would also offer build the public into a literate community that demands fair and accountable actions of their government.

MAJOR RECOMMENDATIONS

Tanzania is a very poor country but rich in resources. Government borrowing should be strictly to leverage government capacity for growth and development. Public debt, therefore, must be pro-poor. It must be managed in such a way that it brings back required financial and social return. If not, it should not be incurred.

(i) **Government should legislate to establish a Central Public Debt Management Office.**

This has been the CAG's outcry in all financial years. The benefits of this office are enormous as we have described quite well in preceding pages above. More than pooling together expertise on public debt management, the office will act as a watchdog on the practices of its staff, the Government, lenders and corporate borrowers alike. It is hoped that current attrition of public funds by hidden criminals cooperating with unfaithful government officers will be sternly dealt-with.

(ii) **Government should train more staff to manage the proposed unified public debt office**

As of present officers managing public debt are scattered in as many as nine different ministries and departments. They each have individualized expertise and knowledge but in different fields of leaning, and are just a few. For effective and efficient public debt management the government should train more staff and then place them under one roof, the unified/central debt management office, sharing views, and responsibilities, but each according to his/her tasks.

(iii) **Government should strengthen the Government Loans, Guarantees and Grants Act 1974 (Rev.2004)**

It has been learnt that the current Act in charge of Government borrowing, i.e. the Government Loans, Guarantees and Grants Act 1974 (Rev.2004), is weak in a number of ways. It does not state the calibre of the public officer(s) to whom the Minister for Finance may delegate his loan negotiation and contracting powers and functions. It does neither prescribe any sanctions on unauthorised officers/persons who impersonify the Minister and fraudulently contract loans (which definitely are for personal gain) on his behalf. The Act is equally silent on what action should be taken on fraudulent companies and/or their proprietors and managers which either obtains Government guarantees through unauthorised officers or with knowledge and intent obtain guarantees above specified ceiling amounts, or fail to repay their loans as required by the law. The government should heed to and honour the call by the CAG and other economic activists for the benefit of the economy of Tanzania.

(iv) Make public debt contracting transparent

There is nothing wrong with the public being informed about how the government negotiates public debt and why? Such kind of information strengthens social action on government. In turn, this social action makes government focused, more responsible and more accountable.

(v) Government should execute CAG's recommendations

Going through all Audit Reports of the CAG (from that of 2009/10 financial year to to-date), one cannot miss the CAG's complaints that his recommendations are continuously ignored by the Government. Accounting and procurement standards are continuously flouted and with impunity. There is very limited evidence of government action on corrupt officers or embezzlers of public funds, or flouters of government financial and procurement regulations. This government behaviour of ignoring reputed advice of such a noble office creates doubt if all debt contracted is really government debt or individual government officers' debt, but thrown on citizens' backs to pay! Government should show political will and administrative strength by executing all recommendations of the CAG without fail.

(vi) Conduct public debt and projects audit

Given the speed of growth of the national debt, the doubts arising among the public on how the debt is raised and managed, and given the exclusion of the public from issues of public debt, this paper proposes a public debt audit based on three principles, as given by Ndikumana and Boyce (2011, ibid), i.e. legal principles, equity and ethical principles, and developmental criteria. The focus should not be on external debt alone, but on domestic loan as well.

The **legal principle** would scrutinize conditions of the debt contracts and assess whether they conform to the laws of the borrowing country, the laws and rules of the lending institutions and governments, and international law (in the case of external debt). **Equity and ethical principles** require that the audit should focus on whether the loan procedures followed the principles of responsible lending, including due diligence, monitoring of the use of the loan proceeds, and whether appropriate measures were taken to protect the interests of both borrowing nation and the lenders. **Developmental criteria** require the debt audit to establish whether loans were utilized to serve the interest of the people, i.e. whether they financed *bona fide* development programs. The audit should examine whether the loans were in line with the country's overall development strategy and lender's stated developmental goals, and whether they ultimately benefited the people. It also would investigate any evidence of undue coercion on the borrower and establish whether external debts were contracted with the consent of the people, i.e. through appropriate authorization, such as parliamentary approval.

All these principles are relevant in the determination of fairness of Tanzania's public debt because much smoke has covered it and doing so would reduce the cloud of doubt.

(vii) **Establish a nationwide public debt debate/dialogue**

Growth of the national debt and its management are serious issues of national security. They touch every citizen's welfare just like the new constitution, HIV-AIDS, malaria, education, and others. Continued dependency on foreign aid pawns the country to international financial capitalists, and particularly now that the country has begun to go for commercial loans. National debate on the growth and management of the national debt will sensitize the public on importance of paying taxes and hating dependency on debt, especially foreign debt and aid. It will also sensitize them on their right to know how their government is borrowing and for what, and whether projects funded by loan monies are properly managed and are bringing back actual returns. Such debate will "promote" government discipline on borrowing and national assets and debt management.

WAY FORWARD

This document has examined whether Tanzania's public debt is justifiable or not. There is no conclusive evidence that it isn't. However, there are many grey areas that demand improvement if the debt is to be truly beneficial to the citizen. There are weaknesses in the law governing public debt in Tanzania, and the institutions managing it. There is stark exclusion of the public from loan contracting decisions. There is serious political unwillingness to establish a unified debt management office or to demand compliance with financial and procurement standards from MDAs and RASs. The government is mercilessly extravagant in use of meagre resources, borrowed or not, through unplanned and unauthorized purchases, maintenance of vehicles, etc. It does not seem interested in creating a judicious administration as it does not respect any of the CAG's advice. This assessment paints a picture that the debt Tanzanians are paying for has many queries requiring answers. For this reason, this paper calls for an open and candid national debate on the national debt in order to keep our house in order, if the emerging economy (of technology and gas) we are about to enter is to become fully beneficial to the nation and not to creditors and thieves.

Whereas this paper is centred on fairness and justification of the national debt, there are yet other areas of national debt which are open to research. One such area, for instance, is on how and to what extent do differing in debt maturities among creditors, and currency mismatches make borrower countries vulnerable to their creditor countries and institutions. Would switching to public domestic debt the answer to these vulnerabilities? Another area of contention in recent days is third world countries switching to commercial borrowing – how much safe is it!?

This paper concludes with a call to advocacy groups to start calling for open national debates on national debt and other national issues in order to make Tanzanian citizens literate of their government decision-making processes because these are a strong weapon of disciplining governments concerning their actions.

REFERENCES

Bank of Tanzania Quarterly Economic Reviews (March 2009- December 2013)

Boyce J. K., &Ndikumana, L., (2011); *Debt Audits and the Repudiation of Odious Debts*; Department of Economics and Political Economy Research Institute (PERI), University of Massachusetts Amherst; USA

Controller and Auditor General's Annual Audit Reports (2009/2010 – 2012/2013)

DambisaMoyo (2009); Dead Aid: Why Aid Is Not Working and How There Is a better Way for Africa

Ishfaq Mohammad, (2010); *Public Debt Measures and Management Strategy*; Economic Papers Series No.3; Department of Finance; Government of Dubai

Joseph Hanlon, (2002); *Defining Illegitimate Debt: Some Fraught Issues*; Open University, UK

Mdhibiti na Mkaguzi Mkuu wa Hesabu za Serikali;, Ofisi ya Taifa ya Ukaguzi; *Ripoti Kuu ya Mwaka ya Mdhibiti na Mkaguzi Mkuu wa Hesabu za Serikali Kuhusu Taarifa ya Fedha za Serikali Kuu kwa Mwaka Ulioishia Tarehe 30 Juni, 2013* Dar es Salaam, Tanzania

Ministry Of Finance (June, 2011);*Medium Term Debt Management Strategy;* Dar Es Salaam

Ministry of Finance, (November, 2011); *Budget Background And Medium Term Framework 2011/12-2013/14*; Dar es Salaam, Tanzania

Mwankenja, E. A. and Lalika, S. J., (2001); The Institutional and Legal Framework for Public Debt Management in Tanzania: A Paper presented at MEFMI/UNITAR workshop on legal aspects of public debt management, 23-27 July 2001, Maseru, Lesotho

Ndikumana, L., and Boyce, J. K., (2011a); Africa's Odious Debts: How Foreign Loans and Capital Flight Bled a Continent. London: Zed Books

Nicolaus Shombe, (April 2014); Debt Management Strategy and Legal Framework: Tanzania Experience The Fifth Debt Management Facility (DMF) Stakeholders' Forum: Organized by the World Bank, Brussels, Belgium

Office of the Controller and Auditor General; *Annual General Reports of The Controller and Auditor General On the Audit of the Financial Statements of the Central Government for the year ended 30th June, 2009/10 – 2012/13;* Dar es Salaam, Tanzania

Office of The Controller and Auditor General; *Annual General Reports of The Controller and Auditor General on The Audit of The Financial Statements of Donor Funded Projects For The Years Ended 30th June, 2011, 2012 and 2013;* Dar es Salaam, Tanzania

United Republic of Tanzania: Ministry of Finance and Development Partners PER Macro Group, (September 2011); *Public Expenditure Review* 2010: A World Bank Document, Dar es Salaam.

ANNEX I: RESEARCHER CURRICULUM VITAE

1.NAME OF PERSON:	Christian Hugo Gama	
2. DATE OF BIRTH	13^{th} March, 1951	
3.NATIONALITY:	Tanzanian	
4.MEMBERSHIP IN PROFESSIONAL SOCIETIES:	Registered with National Council for Technical Education; Dar es Salaam Chamber of Commerce	
5. EDUCATION:		
University Attended	**Year**	**Degree Obtained**
Dar es Salaam Teachers' College	1974/75	Diploma in Education
University of Dar es salaam	1978/79-1980/81	Bachelor Degree in Commerce (Hons)
Institute of Finance Management - Dar es Salaam	1988/89	Post Graduate Diploma in Financial Management
University of Dar es salaam	1994-1996	Master Degree in Business Administration (Finance)
6. OTHER TRAINING:		
Institution	**Period**	**Program**
Centre for Continuing Education (CCE) – University of Dar es Salaam	8^{th} – 12^{th} May, 2006	Inclusion of ICT technologies in Teaching and Learning Processes
Centre for Continuing Education (CCE) - University of Dar es Salaam	14^{th} - 18^{th} Nov., 2005	Effective Teaching Methods
University of Witwatersrand, Republic of South Africa	4^{th} – 22^{nd} Oct., 2004	International Peace and Security Management
University Computing Centre (UCC) – University of Dar es Salaam	22^{nd} - 26^{th} Sept., 2003	Computer Systems Networking
Tanzania Institute of Education, Dar es Salaam	15^{th} – 17^{th} July, 2002	Teaching/Learning Improvement Workshop
The Training and Consultancy Academy	10^{th} – 14^{th} Sept., 2001	Basic Consultancy Skills Development
International Trade Center (ITC)	1998 – 2000	International Business Development Skills; Tutor Training

Tanzania Industrial and Scientific Consultancy Organization (TISCO)	1992- 1993	Management Consultancy Skills (One-year Field Attachment)
International Trade Centre (ITC) and the Eastern and Southern African Management Institute (ESAMI) – Arusha, Tanzania	14th – 18th July, 1986	Export Product Development Skills
College of Business Education (CBE) and German Agency for Technical Cooperation (GTZ)	19th -30th August, 1985	Computer Programming and High-Level Machine Language
Dar es Salaam Teachers' College	1975	Diploma in Education

MEMBERSHIP

Certified Technical Instructor	National Council for Technical Education
Management Consultant cum Trainer	Dar es Salaam Chamber of Commerce

7. LANGUAGE & DEGREE OF PROFICIENCY:

Language	Speaking	Reading	Writing
Swahili	Excellent	Excellent	Excellent
English	Excellent	Excellent	Excellent

8. COUNTRIES OF WOK EXPERIENCE Tanzania

9. EMPLOYMENT RECORD

Employer	From	To	Position held	Duties
1. Gama Consult Ltd.	2009	Present	Managing Director	• Providing Company direction, giving it leadership - guidance, policies, procedures • Formulating corporate strategies; • Building strategic alliances • Monitoring global business environment

Employer	From	To	Position held	Duties
Centre for Foreign Relations	2004	2008	Lecturer	• Founder and Head of Department of Economic Diplomacy • Developing curricula and syllabi for Dept.; linking dept. with rest of Centre and other colleges/ institutions; monitoring and supervising teaching and learning processes; developing departmental strategic plans • Teaching in the Economic Diplomacy Programme - (Economic/ Commercial Diplomacy; International Business; Fundamentals of Economics; Export & Investment Promotion

Employer	From	To	Position held	Duties
College of Business Education	1981	2003	Tutorial Assistant - Assistant Lecturer	• Headed various academic departments and Projects (Special Pogrammes; ICT; Procurement; JITAP • Taught different courses – Marketing Management, Financial Management; Marketing Research; Strategic Marketing; Information Systems Management; Computer skills for executives; Research methods; Case researching and writing
10. Computer Knowledge: Ms Office Applications (Ms Access, Ms Excel, Ms Publisher, Ms Word, Ms PowerPoint, Ms Project); PageMaker, WordPerfect, Lotus Suite; Networking				

11. WORKS UNDERTAKEN THAT BEST ILLUSTRATES MY CAPABILITY

Name of assignment or project:-Developing Five-year Rolling Strategic Plan and aligning it with University's Master Plan: Oct 20 – Nov. 15, 2011

Location: SAUT – Songea College.

Client: St. Augustine University of Tanzania (SAUT)

Main project feature: To write and align College's Strategic Plan with University's Master Plan

Position Held: Lead Consultant

Activities performed:

- Conducted Physical evaluation of teaching and learning facilities at Songea College;
- Established current position of skills and qualifications available
- Developed and written basic strategic assumptions for the plan
- Written the five-year rolling strategic plan 2012-2017 and aligned it with SAUT's Strat-Plan
- Developed One-year plan and budget

Name of assignment or project:-Developing Five-year Rolling Strategic Plan and One year Plan and Budget, April – July 2011

Location: Dar es salaam

Client: United African University of Tanzania (UAUT) – a South Korean university founded at Kigamboni, Dar es Salaam, Tanzania

Main project feature Developing and Writing a five-year rolling strategic plan and one-year plan and budget.

Position Held: Lead Consultant

Activities performed:

- Conducted Physical evaluation of teaching and learning facilities at Kigamboni site;
- Established current and planned position of skills and qualifications to be made available
- Developed and written basic strategic assumptions for the plan
- Written the five-year rolling strategic plan 2012-2017
- Developed One-year plan and budget

Name of assignment or project: Developing competence-based syllabi for marketing and research methodology 2009; 2010

Location: Morogoro National Vocational Training College

Client: National Vocational Education and Training Authority (VETA),

Main project feature: To develop competence based syllabi for Marketing Management and Research Methodology for VETA undergraduate and postgraduate programmes.

Position Held: co-developer

Activities performed:

- Developed content for both courses including reference materials

Name of assignment or project: Conducted training in Financial Management to Business Plan competitors May, and November, 2009

Location: Dar es salaam

Client: TechnoServe Tanzania

Main project feature: To teach financial management skills to small and medium enterprises owners and managers competing for best business plan funding

Position Held: Lead Trainer

Activities performed:

- Developed teaching material per TechnoServe's requirements
- Conducted Training

Name of assignment or project: Training Zanzibar Revolutionary Council on Diplomacy, Protocol and Resource Mobilization Techniques January 6 – 11, 2006

Location: Zanzibar – Vijibweni Park Hotel

Client: World Bank

Main project feature: To enhance understanding of diplomatic and protocol practices, and impart skills for resource mobilization at international level

Position Held: Trainer

Activities performed: Facilitated training on

- Leadership and management skills.
- Advocacy and Lobbying.
- Public Private Partnership (PPP)
- Developed Material for the training.

TANZANIA COALITION ON DEBT AND DEVELOPMENT

(TCDD)

Shaurimoyo Road, Ilala Area
Mariam Tower, 7th Floor
P.O. Box 80147, Dar es Salaam, Tanzania

Tel: +255 22 2866866
Mobile: +255 736 502661
E-mail: ttcdd@yahoo.com **or** info@tcdd.or.tz
Website: www.tcdd.or.tz