TANZANIA COALITION ON DEBT AND DEVELOPMENT

(TCDD)

TANZANIA PUBLIC DEBT PROFILING

2021

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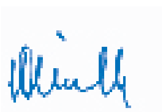
Acknowledgment

I wish to sincerely thank the East African Budget network (EABN) which through the funding from OSIEA were able to fund the project called **"Debt Transparency for Social Service Financing in East Africa"** which involved four East African countries namely: Tanzania, Kenya, Uganda and Rwanda.

The study in Tanzania was undertaken by Dr. Felician Mutasa of Open University of Tanzania (OUT) who tirelessly and with diligence worked hard to accomplish this task of compiling public debt data for easy comparability with other countries. We at TCDD we are proud of Dr. Mutasa for representing the country very well at East African arena.

This publication is a Tanzania specific document for internal and external reading for different researchers and readers who may wish to understand the Tanzania Public Debt position as it stands today. It is our call at TCDD to invite all researchers and readers who may wish to research about Tanzania Public Debt or the Tanzania economy in general to have this book for their research.

We wish you a good a pleasant reading.



Hebron Timothy Mwakagenda
Executive Director

Executive Summary

Tanzania development agenda is informed by its vision 2025, third five development plan and CCM ruling party manifesto. Tanzania has enjoyed a stable economy for the past decade (2010-2020) enabling to move into a low middle income country in July 2020. GDP growth has on average grown by 6 percent during the above period. Single digit inflation (on average below 5 percent) was maintained, complemented by favorable current account balance and increased investment and sufficient foreign reserves to meet import expenditure needs for required minimum of 4 months.

On the other hand, fiscal deficit remained relatively low (on average -3.1 from 2012/13 to 2019/20), which could be an indication of effective management of public spending. Tax revenue as a percentage of GDP has however not been very impressive as it averaged 11 percent between 2000 and 2017. Estimates by IMF Fiscal Monitor 2021 show that tax revenue will increase slightly to 15 percent by 2025 which is relatively low by regional standards(regional- 17 percent; IMF(low income countries- 22 percent).

Tanzania's economy has not been immune to COVID 19 economic impact. The combined effect of depressed global demand for Tanzanian exports, COVID 19 restrictions imposed by different countries, global uncertainty have affected GDP growth and it is now estimated that GDP growth will fall to 2 percent from the planned 4.5 percent in 2020.

Tanzania has traditionally been one of the major recipients of foreign aid and concessional loans, mostly to fund the state owned enterprises that dominated practically all sectors of the economy after independence. Most of the enterprises could not yield the intended results due to mismanagement and inefficiency, and instead drained the meager domestic resources, while some plunged into heavy debt. Thus, by the mid-1980s the country was already struggling with mounting debt service. The debt-to-GDP ratios reached 122 per cent in 1988 and 179 per cent in 1994 culminating into a debt crisis.

Tanzania was among the first countries to get debt relief under the HIPC Initiative. Tanzania reached 'decision point' in April 2000 and 'completion point' in November 2001. The total committed debt relief for Tanzania from both the HIPC and the MDRI frameworks as at end of August 2018, amounted to over US$6 billion, which substantially alleviated Tanzania's debt burden, leading to a significant decline in debt indicators. The ratio of public external debt to GDP declined by more than half from 37 per cent in 2005/06 to 16.6 percent in 2006/7. Similarly, the public external debt stock was cut nearly by half to $4.69 billion in 2006/07.

Debt relief initiatives provided ample space for the Government to increase borrowing resulting into an increase in both external and domestic debt in the post-HIPC period. Public external debt accounted for a significantly higher proportion of public debt, 73.7 per cent as at December 2019. The current Public debt to GDP is 38.2 percent as compared to 20.9 percent in 2008.

Public debt stock as at June 2020 was USD 24,539.9 million (39.2 per cent of GDP in nominal terms). External public debt was USD 17,783.7 million, equivalent to 28.4 per cent of GDP in nominal terms, and domestic debt was USD 6,756.2 million equivalents to 10.8 percent of GDP. Of the total public debt stock, 72.6 percent is accounted for by public external debt while domestic debt accounts for 27.4 percent.

Multilaterals account on average 46.4 percent of the total external debt. Commercial loans on average accounted 33.5 percent, Export credit agencies on average contributed 10.8 percent and bilateral sources averaged 9.3 per cent over the four years. (2016/17 to 2019/20).

Public debt portfolio is dominated by concessional loans from multilaterals and bilateral accounting 55.8 per cent of total public debt as at end of June 2020. However, the trend shows that concessional loans have been declining from 79.1 per cent in 2012/13 to 55.5 per cent in 2019/20. The continuous declining trend of concessional financing necessitated increased access to non-concessional debt which increased to 44.5 per cent of total public external debt as at end of June 2020.

The maturity structure of public external debt as at end of June 2019 shows that more than half of the debt (56.8 per cent) will mature only after ten or more years, which reflects the significant portion of concessional debt in the portfolio.

Tanzania has been of the few countries in Africa receiving substantial amounts of grants in the past two decades. However, in the past decade the flow of external grants has dwindled due to "donor fatigue" and uncertainties in development partners economies. Budget support has ceased since 2015/16 probably due to the change in aid modalities. Project grants have continued to dominate the total of grants followed by basket funding.

The trend of disbursed and undisbursed external debt shows disbursed external debt increased from 12, 605.1 USD million in 2014 to USD 20,958.4 million in 2020, while undisbursed external debt increased from USD 1,631.8 million to 1,994.3 USD millions in 2020. Information on commitment fees on undisbursed debt was not available.

Most of the external debt contracted was utilized for budget and balance of payment support, development of infrastructure and improvement of social welfare and education.

The stock of domestic debt at the end of June 2020 was TZS 15,515.7 billion, equivalent to 10.8 per cent of GDP in nominal terms and has been increasing with time. Domestic debt increased from TZS 6,986.5 in 2013/14 to TZS 15,515.7 in 2019/20. The dominant debt instrument used by the government to borrow is government bonds, followed by Treasury Bills. The trend shows that treasury bills are declining as compared to the increased use of government bonds. The increase in the use of Government bonds is consistent with implementation of Government's strategy of lengthening maturity profile of domestic debt through using of long term instruments of financing. Commercial banks remain the leading investors, accounting for 34.2 percent of total domestic debt followed by pension funds, which accounted for 28.4 percent in June 2020.

Increased Public debt stock in Tanzania amounts to fiscal challenges. Domestic revenue generation in Tanzania is still insufficient to meet planned expenditure. Domestic revenue as a percentage of GDP has been increasing slightly and is still below regional and IMF threshold for Low income countries(17 and 22 percent respectively). Interest payments as a percentage of domestic revenue has been increasing over time from 8 percent in 2013/14 to almost 13.1 percent in 2019/20. In addition, debt service increased from USD $ 214 million to USD$ 1,617.6 million in 2019/20. As per 2020/21 budget speech debt repayment was estimated to consume 18 percent of the Government budget.

Tanzania remains at a low risk of external debt distress as indicated in DSA results of 2020, 2019, 2018 and 2017. All the debt burden (solvency and liquidity) indicators are below their respective thresholds under both baseline and extreme shock scenarios throughout the projection period. The solvency indicators show that Present Value (PV) of external public debt to GDP is projected at 17.3 percent in 2020/21 and will slightly increase to 17.9 percent in 2023/24 and afterwards will decline to 7.2 percent by 2040/41, all below the threshold of 55 percent.

Likewise, the PV of external public debt-to exports is projected to decline from 113.2 percent in 2020/21 to 68.0 percent in 2030/31 and thereafter decrease to 34.9 percent by 2040/41, well below the threshold of 240 percent.

Debt sustainability is however sensitive to the stock of contingent liabilities and accumulated domestic payment arrears. We could not establish the current stocks of contingent liabilities and payment arrears due to poor reporting and lack of transparency. But DSA (2020) points out the threat of increased contingent liabilities. Likewise the World Bank (2012) cautions on the accumulation and non-payment of domestic arrears as a threat to debt sustainability and the performance of the economy.

Other risks to debt sustainability include exchange rate risks, accumulation of public debt investment, and economic impact of COVID 19 and reduced GDP growth rate.

Recommendations to dealing with Public Debt Predicament

Legal Framework

- Current legal framework does not reflect new financing landscape. The Government should review it in order to have proper legislation to manage national debt. The parliament should be part of the process of contracting required debt rather than just being informed of the extent/status of debt.

Policy related

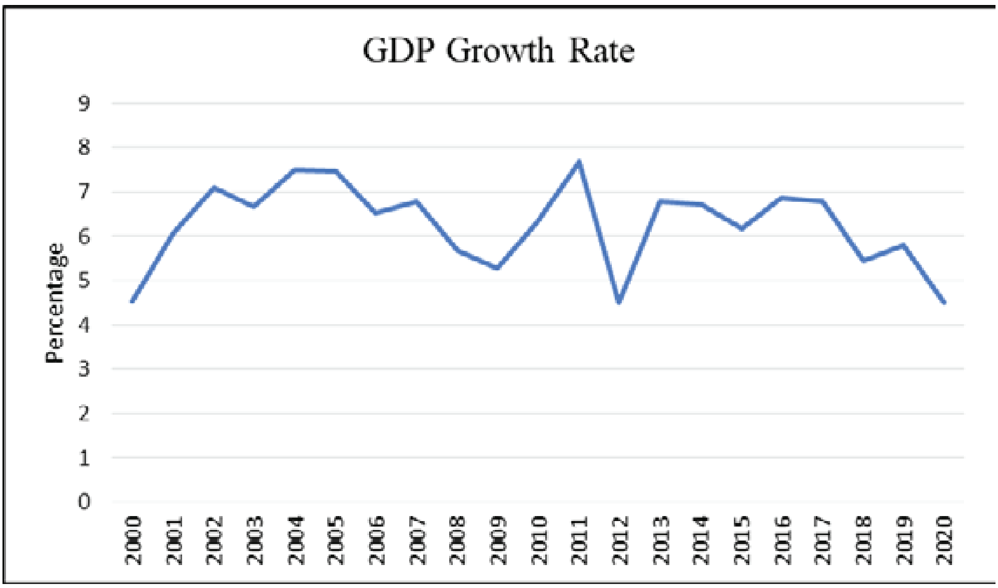
- The Government should improve transparency and accountability in debt contracting (easy access to the right information to hold government to account).
- The government should adhere to IMF's Code for Fiscal transparency (revised 2013, Section 3 under Fiscal Risk analysis and management) and IMF's Public Sector Debt Statistics-Guide for Compilers and Users (2012, chapter 9 section D Fiscal Risk and Vulnerability) in order to have comprehensive data on contingent liabilities and payment arrears.
- Civil Society organizations should develop a formal mechanism/ forum in order to enhance active advocacy, communication and dissemination of debt issues.
- The Government should prioritize concessional financing in order to ensure that projects financed have large impact on growth and exports
- The Government should on a continuous basis improve the business environment by fully implementing the blue print document so as to increase private sector investment required to promote economic growth.
- The government should strengthen domestic revenue mobilization by:
    - Widening the tax base
    - Improving tax administration
    - Combating corruption in tax collection
    - Strengthening collections from non-tax revenue sources
    - Efforts should be done to formalize the informal sector for taxation
    - Remove inefficient tax exemptions
    - Improving expenditure management through enhanced fiscal discipline

CHAPTER 1: BACKGROUND

1.1. Macroeconomic outlook

Tanzania development agenda is influenced by its vision 2025, third five year development plan and CCM ruling party manifesto. The pre COVID 19 economic performance was generally considered stable as indicated in the IMF consultative report of 2020. Real GDP growth rate presented in figure 1 show that on average GDP growth rate between 2010 to 2019 was 6.4 percent. GDP growth rate declined slightly to an average of 6.12 during the period from 2011 to 2020. The steady GDP growth rate between 2000 and 2010 was mainly attributed to increased investment flows, export diversification and increased public investment in infrastructure. (WB 2020).

Figure 1: Trends of GDP growth rates 2000-2020



Source: Ministry of Finance and Planning economic survey reports.

Reflecting strong income growth over the past decade, on July 1, 2020 the World Bank announced that Tanzania's gross national income (GNI) per capita increased from $1,020 in 2018 to $1,080 in 2019, exceeding the threshold for lower-middle income status. (WB 2020). this has made Tanzania the second country after Kenya in the East Africa (beyond EAC) to attain middle income status.

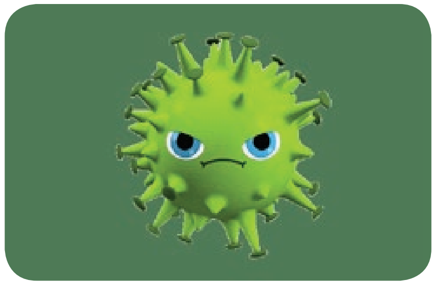
In the past decade, Tanzania showed strong macroeconomic fundamentals, with all major indicators performing well as indicated in table 1.

Inflation has remained constant below the Bank of Tanzania target rate of 5 percent. The current account deficit relative to GDP has substantially downsized, more than halved, reflecting in part a decline of the import bill relative to GDP. This is also reflected in the narrowing savings investment gap relative to GDP. The exchange rate has continued to depreciate moderately against the US dollar from 2014 to 2019. The shilling depreciated at 22 percent in 2014/2015, 7.4 percent in 2015/ 2016, 2.11 percent in 2016/17, 2.5 percent in 2017/2018 and 0.5 percent in 2018/2019. Foreign reserves measured by months of imports indicate that Tanzania had satisfactory levels to sustain importation of goods and services. See table 1. The reserve months of imports trend is above the country, EAC and SADC benchmarks of 4.0 months, 4.5 months and 6.0 months respectively. (Tanzania Economic Survey 2019).

Table 1: Recent selected macroeconomic indicators 2014 - 2019

Indicator	2014	2015	2016	2017	2018	2019
Real GDP growth	6.7	6.2	6.9	6.8	7.0	6.3
Total investment to GDP	37.6	32.7	32.1	34	38.9	37.5
Exports to GDP (%)	17.5	19.9	17.7	16.8	17.0	17.3
Imports to GDP (%)	27.6	25.3	19.7	19.1	20.2	20.4
Current account balance	-10.0	-7.9	-4.2	-2.9	-3.5	-3.2
Inflation	6.1	5.6	5.2	5.3	3.5	3.8
Domestic savings to GDP (%)	24.3	25.3	30.0	30.2	30.6	33.4
Exchange rate against USD average in TZS	1,660	2,038	2189	2237	2293	2305.
Foreign reserves months of imports	4.2	4.6	5.4	6.8	4.9	6.4
GDP per capita (US$)	1,030	947	966	1,002	1,039	1,104

Source: Compilation based on IMF and Ministry of Finance and Planning and World Bank (2020)



Post –COVID 19 Economic performance

Tanzania's economy has not been immune to COVID 19 economic impact. The economy has been affected in a number of ways. First and foremost depressed global demand for Tanzanian exports, with the notable exception of gold has reduced foreign exchange earnings and disrupted domestic production. (WB, 2020). Secondly COVID 19 restrictions imposed by different countries have also affected international trade and travel resulting into rising cost of inputs in the domestic market. Tourism which is a major source of foreign exchange has been badly affected by travel and other related restrictions. Projections by the Ministry of Natural Resources and Tourism show that employment in the tourism sector may drop from 623,000 to 146,000 while the number of tourists is expected to drop from 1,867,000 to 437,000. Revenue forecasts show that there may be a drastic fall in revenue from trillion 2, 6 to 598 million. (MNRT Budget speech 2020/21).

On the other hand, global uncertainty has reduced foreign direct investment and planned private investment. Shocks to export-oriented sectors such as tourism, manufacturing, and related services have been amplified, via diminished revenues and labor income, to domestically oriented small and medium enterprises (SMEs).

The combined effect of the above, have affected GDP growth and it is now estimated that GDP growth will fall to 2 percent from the planned 4.5 percent. (World Bank, 2020).

The above notwithstanding, Tanzania's economy has fared better than those of its regional peers, and the country avoided a recession in 2020. World Bank estimates suggest that by the end of 2020 Tanzania will remain one of the top three growth performers in East Africa. Over the last five years, its average GDP growth rate averaged 5.5 percent, ranking it third in the region behind Ethiopia (7.6 percent) and Rwanda (6.9 percent). Tanzania's economy is also expected to remain among the most stable in the region. (World Bank, 2021). From the welfare point of view, COVID-19 crisis has had a deeply negative impact on employment and welfare, especially among lower-income households. (ESRF, 2020).

1.2. Fiscal performance

As indicated in table 2, Tanzania's fiscal deficit has remained relatively low, which could be an indication of effective management of public spending. However, the fiscal deficit increased to 4.3 per cent of GDP in 2017/18 from 1.5 per cent in the previous fiscal year. The relatively lower deficit in 2016/17 reflected a slow budget execution, and delays in external financing and project preparation and implementation (IMF 2018b).

Tax revenue as a percentage of GDP has remained more or else constant, averaging about 11 per cent over the period 2000–2017, which is still relatively low by regional standards and IMF thresholds. (17 percent and 22 percent). Also note that in table 1.1, absolute tax has been increasing but declining relative to GDP mainly because of increasing GDP figures. The slight increase in tax revenue in recent years (2017 to 2019) follows various tax reforms undertaken to enhance tax compliance and administration.

Estimates by the World Bank (2020) indicate that domestic revenue will continue to increase to an average of 15.6 percent of GDP in the medium term (2020/21 - 2024/25) from the average performance of 14.3 percent between 2015/16 and 2019/20. Likewise, expenditure is projected to increase to an average of 17.84 percent of GDP from 2021 to 2025 from 16.78 percent recorded between 2015/19 and 2019/20. (IMF Fiscal Monitor 2020).

Grants and concessional loans are expected to decline since the country graduated into lower middle-income status. The overall fiscal deficit (including grants) is projected to average 2.1 percent of GDP in the medium term from an average of 2.2 percent recorded between 2015/16 and 2019/20. Subsequently, the deficit is projected to decrease to an average of 1.4 percent in the long-term following the completion of key infrastructure projects as well as improvement in domestic revenue mobilization.

Tazara flyover bridge (Left) and JKNIA Terminal 3 (right), infrastructure projects in Dar es Salaam.

The key infrastructure projects include:

New airports and revival of Air Tanzania

Roads and bridges infrastructure

Bus Rapid Transit (BRT) system of Dar Es Salaam
Mwalimu Nyerere hydroelectric project MW 2215

Standard Gauge Railway (SGR) Dar Es Salaam to Makutupora 722 kms
Rural electrification REA- Electrification of rural villages in Tanzania mainland

Table 2 - Fiscal performance in billions of Tanzanian shillings

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/2020
Domestic revenue	8,585.4	10,253	10,957.8	13,907	16,639.8	17,944.9	18,527.3	21,036.6
Tax revenue	7,821.7	9,364.9	9,891.7	12,411	14,055.2	15,091.8	15,387.3	21,036.6
Non tax revenue	470.5	572.8	706.0	1,070.2	2,072.9	2,311.6		2,850.5
Total expenditure	12,947.6	14,011.1	14,603.7	17,759.6	19,657.4	20,468.1	22,265.4	23,502.7
Recurrent	9,103.3	10,085.1	10,893.5	13,420.0	12,266.9	12,852.3	13,811.2	14,201.1
Development	3,844.3	3,926.0	2,264.5	2,904.5	7,390.4	7,615.8	8,454.2	9,301.5
Fiscal deficit	3,004.9	2,497.9		3,428.0	1,594.1	2,300.7	4,229.0	1,988.9
Tax /gdp	16.8	17.9	12.5	14.3	15.6	12.7	11.4	12
Fiscal deficit/gdp	-6.2	-4.5	-2.7	-3.6	-1.5	-1.9	-3.1	-1.4

Source: Ministry of Finance and Planning

Further medium term fiscal outlook is presented in table 3.

Table 3: Fiscal outlook as a percentage of GDP 2013 to 2025

Year	2013	2014	2015	2016	2017	2018	2019	2020	*2021	*2022	*2023	*2024
G/Revenue	15	14.4	14.0	14.8	15.4	14.7	14.7	15.1	15.0	15.2	15.4	15.4
G/Expe	18.8	17.3	17.2	16.9	16.6	16.6	16.4	17.0	17.8	17.9	17.8	17.8
Fiscal deficit	-3.8	-2.9	-3.2	-2.1	-1.2	-1.9	-1.9	-1.7	-1.9	-2.7	-2.5	-2.4

Source: IMF fiscal Monitor 2021

*Forecast by IMF

Overall, Tanzania still needs to enhance tax administration and compliance so as to be able to collect more revenue needed for meeting development needs. Fiscal discipline has considerably improved especially during the current political regime. On the other hand, increased revenue collection in the medium outlook is constrained by the current economic uncertainties caused by COVID 19. Likewise other challenges as observed by different studies (AfDB(2010) and Rutasitara et.al 2010) include narrow tax base , corruption in tax collection; insufficient tax information and education; numerous tax exemptions and poor management capacity of Tanzania Revenue Authority (TRA). The above challenges are also echoed by a recent World Bank study (2021) which points out weaknesses in revenue mobilization, financing and executions of the planned budget.

1.3. Historical background: debt and debt relief initiatives in Tanzania

Tanzania has been one of the major recipients of foreign aid and concessional loans, mostly to fund the state owned enterprises that dominated practically all sectors of the economy after independence. According to Noor et al (2009), by 1988 there were about 400 parastatals, accounting for 20 per cent of GDP. Most of the enterprises could not yield the intended results due to mismanagement and inefficiency, and instead drained the meager domestic resources, while some plunged into heavy debt. Thus, by the mid-1980s the country was already struggling with mounting debt service, compounded by low export earnings and the impact of external shocks, including the oil price shocks of the 1970s and poor weather. (Were et.al, 2020).

Real GDP growth averaged 2.3 per cent during the period 1981–85. The public sector was bloated, while the domestic revenue base was limited. As the economic crisis deepened, various economic reforms were initiated in the mid-1980s towards transforming the economy from state control to an open market economy. However, substantive reforms were witnessed in the early 1990s, including the liberalization of the economy and the foreign exchange market. Fiscal reforms including fiscal management to constrain government spending and tax policy reforms, such as the introduction of VAT in 1998 to mobilize domestic revenue, were also undertaken.

The economy was heavily dependent on foreign aid from development partners, especially the Nordic countries and international financial institutions. By the early 1990s, foreign aid was funding about 60 per cent of the development budget.

The public sector had also grown faster, leading to budgetary challenges. The average public external debt as percentage of GDP and public external debt service as a percentage of exports exceeded 100 per cent and 30 per cent, respectively, in the period 1986–95. The debt-to-GDP ratios reached 122 per cent in 1988 and 179 per cent in 1994 culminating into a debt crisis.

A weak revenue base, a shortage of foreign exchange especially in the period prior to economic liberalization, and the transfer of parastatal debt obligations to an already over-stretched government budget led to a build-up of external payment arrears. The government needed reprieve from the heavy debt burden, and hence it was not surprising that Tanzania was among the first countries to get debt relief under the HIPC Initiative.

Tanzania reached ‘decision point’ in April 2000 and ‘completion point’ in November 2001, after implementing a raft of macroeconomic and structural reforms, including coming up with a ‘Poverty Reduction Strategy Paper’ (PRSP), thus becoming the fourth country to reach completion point after Bolivia, Mozambique, and Uganda. The structural reforms included a reduction of the role of the state in the economy through privatization and liberalization of the economy.

At the completion point, the IMF estimated that debt service relief from Tanzania’s creditors under the enhanced HIPC Initiative amounted to approximately US$3 billion over time ($2.026 billion in net present value/NPV terms) as of 2001. As a result, the NPV of Tanzania’s total external debt was reduced by about 54 per cent. (IMF 2001). The NPV of the debt-to-export ratio was expected to remain well below the target ceiling of 150 per cent throughout the period 2000–20, with a further fall in debt ratios after taking into account additional bilateral assistance beyond the enhanced HIPC Initiative (IMF 2001).

The total committed debt relief for Tanzania from both the HIPC and the MDRI frameworks as at end of August 2018, amounted to over US$6 billion, (IMF 2019). The debt relief initiatives substantially alleviated Tanzania’s debt burden, leading to a significant decline in debt indicators. Debt stock was reduced to below US$5,000 million in 2006, while the ratio of debt to gross national income (GNI) and debt as a percentage of exports declined to as low as 33.6 per cent and 128.7 per cent, respectively.

Debt service as a percentage of exports declined to 3.4 per cent by 2006. The ratio of public external debt to GDP declined by more than half from 37 per cent in 2005/06 to 16.6 percent in 2006/7. Similarly, the public external debt stock was cut nearly by half to $4.69 billion in 2006/07. Debt service payments were cut substantially from about $193 million in 1999/00 and $121 million in 2000/01 at the completion point to as low as below $50 million a few years thereafter, before starting to rise markedly especially from 2012.

Debt service as a percentage of government revenue declined from 19 per cent in 2000/01 before the HIPC Initiative to an average of 7.7 per cent during the period 2000/01–10/11.

1.3.1. Trends and structure of Tanzania's Post-HIPC debt

Debt relief initiatives provided ample space for public borrowing over the years, leading to a rapid accumulation of debt, especially in recent years. Both external and domestic debt has been increasing in the post-HIPC period, with external debt accounting for a significantly higher proportion of public debt—73.7 per cent as at December 2019. (DSA 2020). The current Public debt to GDP is 38.2 percent as compared to 20.9 percent in 2008.

National debt stock, comprising external (public and private) and domestic debt, has evolved over time, largely driven by public sector debt. Total national debt increased to US$28.4 billion at the end of June 2019 (about 49 per cent of GDP), from US$7.6 billion at the end of June 2008 (31 per cent of GDP), an average increase of 24 per cent annually (more than four times the average real economic growth) over the decade. (DSA 2019). Public sector debt has remained dominant, accounting for an average of 78 per cent of total external debt.

Although domestic debt still accounts for a relatively smaller proportion, it had increased steadily to 14,435.2 billion Tanzanian shillings (TZS) at the end of December 2019 from 13,340.0 billion TZS in 2018.

Tanzania's external debt was traditionally linked to concessional sources—that is, multilateral and bilateral creditors. However, the post-HIPC period has been characterized by a gradual decline in the proportion of debt held by multilateral and bilateral creditors from 54.7 per cent and 17.7 per cent as at end of June 2012 to about 46.6 and 9.4 per cent as at end of June 2019, respectively. On the other hand, the period witnessed an increasing proportion of debt from commercial sources, from 18.0 per cent to 33.4 per cent (Economic survey 2019). This has implications on debt servicing costs, given that the latter is relatively costlier.

Growth of external debt in the pre –HIPC period is mainly attributed to increased borrowing to finance public infrastructure projects, particularly those related to transportation, natural gas, and power generation and transmission. Tanzania's debt situation was potentially sustainable before the emergence of COVID-19 as most of the sustainability indicators were within the given IMF thresholds. However, available evidence indicate that COVID -19 is poised to have a considerable impact on economic growth and fiscal position in the short and medium term framework, which on the other hand would put debt sustainability into jeopardy.

The rising financing needs to fund development projects have come at a time when the financing landscape is significantly changing. Traditional and relatively concessional sources of financing have been declining, giving rise to new non-concessional financing sources that are more complex, costly, and risky.

1.4. Frameworks for debt management

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

(i) Negotiating and borrowing on behalf of the government

(ii) Channeling resources to the targeted sectors;

(iii) Handling the administrative and strategic side s of debt management; and

(iv) Making resources available for payment

GLGGA provides the Minister for Finance with the responsibility of reporting the following to the Parliament:

(i) An annual debt strategy and borrowing plan

(ii) A debt strategy implementation plan on a quarterly basis

(iii) A debt and budget execution reports

Section 25, Part VI of the Government Loans, Guarantees and Grants Act 2003 requires the minster to have an annual debt strategy and borrowing plan prepared and approved by the government. Section 32, part VII 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 set out in the national debt strategy.

The institutional set up of management of public debt is composed of the following institutions: Ministry of Finance, the Attorney General Chambers and the Bank of Tanzania. Section 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.

2014 effectiveness of the framework for debt management in Tanzania is daunted by the following challenges:

(i) Current legal framework does not reflect new financing landscape. Need to review in order to have proper legislation to manage national debt.

(ii) Lack of transparency and accountability in debt contracting.

(iii) The level of advocacy, communication and dissemination of debt issues is still low.

(TCDD (2014) and Nicolaus Shome 2014).

CHAPTER 2:

TANZANIA PUBLIC DEBT PROFILE

2.1. Status of Public debt

The debt sustainability analysis report (2020) shows Public debt stock as at June 2020 was USD 24,539.9 million (39.2 per cent of GDP in nominal terms), also shown in table 2.1. External public debt was USD 17,783.7 million, equivalent to 28.4 per cent of GDP in nominal terms, and domestic debt was USD 6,756.2 million equivalents to 10.8 percent of GDP. Public debt increased by 5.9 per cent from 2019. (Ministry of Finance and Planning, DSA 2020).

Table 4: Evolution of Public debt in USD millions

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Public External debt	10,216	11,743	13,092	14,009	14,969	16,000	16,724	17,784
Domestic debt	3,270	4,280	4.118	3,917	6,384	6,468	6,460	6,756
Total Public debt	13,486	16,023	17,210	17,926	21353	22,468	23,184	24,540
Debt/gdp	31	32.6	33.4	37.1	39.6	38.4	39.7	39.2

Source: Ministry of Finance and Planning and BOT various reports

2.2. Public External Debt

Public external debt increased from US$10,278.5 in 2012/13 to 17,840.6 in 2019/20 translating into an annualized increase of 75.3 percent. The increasing trend is reflected in table 5.

As of December 2019, Tanzania total national public debt amounts to USD 24.5 billion with external debt amounting to 72.6 per cent of the total and domestic debt with 27.4 per cent. (Refer to table 4).

Table 5: Public External Debt in USD millions

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Public External debt	10,278.5	11,819.9	13,158	14,092.8	14,996.7	16,035.2	16,685.7	17,840.6
Public External Debt/GDP	32.8	33.7	38.6	40	41	41.3	39.9	39.5

Source: Ministry of Finance and Planning and BOT various reports

2.2.1 Public external debt stock by creditor

Tanzania external public debt by creditors is generally dominated by multilaterals. table 6 shows that for the past four years multilateral share in the external debt has been on average above 46.4 percent of the total external debt.

The second dominant category was commercial loans which averaged 33.5 percent of the total external debt and was more or less constant in nature. The third category was export credit agencies on average 10.8 percent of the total external debt. The fourth source of credit is from bilateral sources which averaged 9.3 per cent over the four years.

The overall picture in regard to sources of credit shows that more loans are sought from multilaterals as compared to other sources. However in the past two years there has been a slight increase (almost 8 percent) in commercial creditors.

Table 6: External Public Debt stock by creditor category (USD millions)

Credit category	2016/17		2017/18		2018/19		2019/20	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)	Amount	(Share %)
Multilateral	8,726.0	46.8	9,538.6	46.5	9,991.6	45.6	10,708.5	46.7
Bilateral	1,940.7	10.4	1,822.6	8.9	1,958.5	8.9	2,083.3	9.1
Commercial	6,245.5	33.5	6,858.4	33.5	7,459.0	34.0	7,573.4	33.0
Export credit	1,739.0	9.3	2,283.4	11.1	2,511.9	11.5	2,554.2	11.1

Source: Ministry of Finance and Planning and Bank of Tanzania

The overall picture in regard to sources of credit shows that more loans are sought from multilaterals as compared to other sources.

2.3. Concessionality of external public debt

Concessional loans from multilaterals and bilateral creditors continue to dominate the public external debt portfolio accounting for 55.8 per cent as at end of June 2020. On the other hand, available data indicate that concessional loans have been declining as depicted in table 7. Concessional loans decreased from 79.1 per cent in 2012/13 to 55.5 per cent in 2019/20. The continuous declining trend of financing from these creditors and government's commitments to finance development projects necessitated increased access to non-concessional debt increased to 44.5 per cent of total public external debt as at end of June 2020.

Table 7: Concessional of public external Debt (Percent)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Concessional	79.1	75.6	68.9	66.6	64.1	61.2	58.2	55.5
Non concessional	20.9	24.4	31.1	33.4	35.9	38.8	41.8	44.5

Source: Ministry of Finance and Planning, DSA analysis 2020

2.4. Maturity profile of external debt

The maturity structure of public external debt as at end of June 2019 shows that more than half of the debt (56.8 per cent) will mature only after ten or more years, which reflects the significant portion of concessional debt in the portfolio. Data provided in table 9 also that on average new external debt commitments in the period from 2005 to 2016 have an average maturity of 34 years. Based on the maturity profile, it can be argued that central government external debt is relatively less exposed to refinancing risk. However, the financing risks and challenges associated with the notable share of external debt of less than ten-year maturity (approximately 43.2 percent as shown in table 8) cannot be ignored. Unfortunately the aggregate data on external debt less than ten year maturity could not be obtained.

Table 8: Maturity profile of external public debt

	Less than a year	1 to 5 years	5 to 10 years	More than 10 years
	1.54%	9,99%	31.68%	56.80%

Source: Ministry of Finance and Planning and BOT various reports

Table 9 shows average maturity on new public external debt commitments between 2005 and 2016 had average maturity of more than 37.6 years.

Table 9: Average Maturity on new external debt commitments Official creditors

Year	Number of years
2005	36
2006	40
2007	41
2008	42
2009	37
2010	38
2011	46
2012	38
2013	41
2014	31
2015	28
2016	34

Source: www.CEICDATA.COM/ World Bank

Tanzania has been of the few countries in Africa receiving substantial amounts of grants in the past two decades.

2.5. Status of Grants

Tanzania has been of the few countries in Africa receiving substantial amounts of grants in the past two decades. However, in the past decade the flow of external grants has dwindled due to "donor fatigue" and uncertainties in development partners economies. Budget support has ceased since 2015/16 probably due to the change in aid modalities. Project grants have continued to dominate the total of grants followed by basket funding (see table 10). The data available show improved external grants in 2019/20 may be due to improved relationship with development partners. It is important to note that due changing external economic conditions and COVID 19 external grants may continue to drop further.

Table 10: Trend of external grants in billions of shillings

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
External grants	1,587.6	1,024.1	495.4	912.0	930.6	461.2	1,043.9
Budget support	514.5	382.3	Nil	Nil	Nil	Nil	Nil
Basket funds	213.6	127.6	86.2	120.6	117.2	175.9	461.2
Projects	670.9	514.2	409.2	600.9	566.2	285.3	930.6

Source: Ministry of Finance and Planning and BOT various reports

2.6. Extent of Disbursed and undisbursed debt

The disbursed external debt is depicted in table 11. The data shows (DOD) that in the six years (June 2014 to June 2020) multilaterals have disbursed almost all the required commitments followed by commercial creditors and export credit. Trend shows that bilateral creditors have consistently disbursed by close to three quarters of what they had committed.

Table 11: External Public Debt by creditor category in USD Millions

	June 2014		June 2015		June 2016		June 2017		June 2018		June 2019		June 2020	
Creditor Category	Amount	Share%	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
Multilateral	7,008.2	49.2	7,140.0	46.3	7,645.7	46.6	8,726.0	46.8	9,538.6	46.5	9,991.6	45.6	10,741.8	46.8
DOD	6,997.3	49.15	7,128.8	46.3	7,638.0	46.58	8,711.1	46.7	9509.2	46.4	9,966.4	45.5	10,703.3	46.6
Interest arrears	10.8	0.08	11.2	0.1	7.7	0,05	14.9	0.1	29.4	0.1	25.2	0.1	38.5	0.2
Bilateral	1,893.3	13.30	1,601.6	10.4	1,842.9	11.24	1,940.7	10.4	1,822.6	8.9	1,958.5	8.9	2,083.3	9.1
DOD	1,057.9	7.43	923.3	6.0	1,112.5	6.78	1,155.9	6.2	981.7	4.8	1,0571.1	4.8	1,113..4	4.9
Interest arrears	835.4	5.87	678.3	4.4	730.4	4.45	784.8	4.2	840.9	4.1	901.4	4.1	969.9	4.2
Commercial	4,374.5	30.73	5,311.3	34.5	5,491.5	33.49	6,245.5	33.5	6,858.4	33.5	7,459.0	34.0	7,573.4	33.0
DOD	3,780.0	26.55	4,871.5	31.6	5,196.2	31.69	5,879.8	31.5	6498.5	31.7	6,922.8	31.6	7,051.8	30.7
Interest arrears	594.5	4.18	439.8	2.9	295.3	1.80	365.7	2.0	359.9	1.8	536.2	2.4	521.6	2.3
Export credit	960.9	6.75	1,357.2	8.8	1,417.6	8.65	1,739.0	9.3	2,283.4	11.1	2,511.9	11.5	2,554.2	11.1
DOD	796.9	5.60	1,150.8	7.5	1,218.3	7.43	1,504.4	8.1	1,775.7	8.7	2,083.0	9.5	2,089.9	9.1
Interest arrears	163.9	1.15	206.4	1.3	199.3	1.22	234.6	1.3	507.7	2.5	428.9	2.0	464.3	2.0
External debt stock	14,236.9	100.0	15,410.2	100.0	16,397.7	100.0	18,651.1	100.0	20,503.0	100.0	21,921.0	100.0	22,952.7	100.0

Source: Ministry of Finance and Planning and BOT various reports

DOD denotes Disbursed Outstanding Debt

Table 12 shows the aggregate disbursed and undisbursed public external debt from 2014 to 2020. The trend shows disbursed external debt increased from 12, 605.1 USD million in 2014 to USD 20,958.4 million in 2020, while undisbursed external debt increased from USD 1,631.8 million to 1,994.3 USD millions in 2020.

Table 12. Total Disbursed and Undisbursed Public External Debt (in USD millions)

Year	2014	2015	2016	2017	2018	2019	2020
Total Disbursed debt	12,605.1	14,074.4	15,165	17,251.2	18,765.1	20,543.2	20,958.4
Total Undisbursed Debt	1,631.8	1,335,8	1,232.0	1,399.9	1,737.9	1,377.8	1,994.3
Total external debt stock	14,236.9	15,410.2	16,397	18,651,1	20,503	21,921	22,952.7

Source: Own computation from Table 11.

Commitment fees on undisbursed external debt were not available.

2.6.1 External Public debt stock by borrower category

The below table shows external debt stock by borrower category. The central government dominates the composition of external debt (average 80 percent). Disbursed debt outstanding to the government was 94.6 percent in June 2017 and 2018 and 94.5 percent in June 2019 and June 2020.

Table 13: External Debt Stock by Borrower Category (Millions of USD)

	June 2017		June 2018		June 2019		June 2020	
Borrower	Amount	Share	Amount	Share	Amount	Share	Amount	Share
Central government	14,688.4	78.7	15,823.5	77.2	16,628.6	75.9	17,734.5	77.3
DOD	13,901.6	74.5	14,978.8	73.1	15,727.2	71.7	16,764.6	73
Interest arrears	784.8	4.2	844.7	4.1	901.4	4.1	969.9	4.3
Public Corporations	310.3	1.7	211.7	1.0	104.1	0.5	62.6	0.3
DOD	282.2	1.5	180.4	0.9	95	0.4	49.2	0.2
Interest arrears	28.1	0.2	31.3	0.2	9.1	0.0	13.6	0.1
External debt stock	14,996.7	100	16,035.2	100	16,732.7	100	17,797.1	100

Source: Ministry of Finance and Planning and Bank of Tanzania various reports

Note: DOD denotes disbursed outstanding debt.

2.6.2. External Debt: Disbursement –Long term loans

The disbursements of long term loans show a gradual increasing trend in aggregate terms. The amount disbursed in 2017 was 2.152 USD billion compared to 48.2 USD million in 2005.

Disbursements of long term loans reached a maximum in 2013 when it hit 2.2 USD billion. The years 2014 to 2016 showed a decreasing trend in disbursements as shown in table 14.

Table 14. External debt: Disbursement of Long Term debt 2006-2017 in USD billion dollars

Year	Amount in USD millions
2005	482.288
2006	573.194
2007	649.355
2008	523.207
2009	1064.827
2010	1295.458
2011	1179.073
2012	1178.199
2013	2202.309
2014	1580.464
2015	1558.213
2016	1329.895
2017	2152.000

Source: www.Ceicdata.Com/ world bank

2.6.3. Bilateral disbursements

Bilateral disbursements reached 228.864 in 2017 from 272.623 in 2016. There has been a gradual increase from 66.225 USD million dollars in 2006. In the year 2008 no disbursements was done probably due to the economic uncertainties facing development partners. The peak disbursement was in the year 2014.

Table 15. Bilateral disbursements 2006-2017

Year	Amount in USD millions
2006	66.225
2007	19.228
2008	0.000
2009	4.623
2010	195.369
2011	131.604
2012	91.845
2013	103.651
2014	425.084
2015	287.097
2016	272.623
2017	288.864

Source: Source: www.CEICDATA.COM/ World Bank

2.6.4. Bilateral Concessional disbursements 2006-2017

Bilateral concessional disbursements reached 288.864 USD million in 2017. This records an increase from the previous number of 272.623 USD million for 2016. Years 2008 and 2009 recorded the lowest disbursements in the given period.

Table: 16: Bilateral Concessional Disbursements 2006-2017

Year	Amount in USD million
2006	66.220
2007	13.383
2008	0.00
2009	4.623
2010	195.369
2011	131.604
2012	91.845
2013	103.651
2014	125.084
2015	87.097
2016	272.623
2017	288.864

Source: www.CEICDATA.COM/ World Bank

2.6.5 Multilateral Disbursements

Multilateral debt disbursements during the period 2006 to 2017 as shown in table 19 displayed a gradual increasing trend. The data reached an all-time high of 930.730 USD million in 2013 and a record low of 436.528 in 2011. Data also shows a slight decrease in disbursements from 2016.

Table 17. Multilateral Disbursements 2006-2017

Year	Amount
2006	493.805
2007	627.045
2008	523.209
2009	883.998
2010	825.597
2011	436.528
2012	700.308
2013	930.730
2014	821.342
2015	839.272
2016	570.281
2017	639.466

Source: www.CEICDATA.COM/ World Bank

2.6.5.1. Multilateral Concessional disbursements

Concessional data was reported at 801.670 USD million in 2017 as indicated in table 20. This records an increase from the previous number of 564.383 USD million for 2016. The trend of disbursements has been increasing except for years 2008, 2011 and 2016.

Table 18: Multilateral Concessional disbursements 2006-2017

Year	Amount in USD million
2006	471.781
2007	620.150
2008	514.987
2009	883.998
2010	866.663
2011	436.527
2012	700.308
2013	930.727
2014	821.343
2015	838.646
2016	564.383
2017	801.670

Source: www.CEICDATA.COM/ World Bank

2.7. Undisbursed External Debt

2.7.1. Undisbursed external debt: Official Creditors

The trend shows that undisbursed external debt has been increasing over time as indicated in table. The peak is recorded in 2017 at 4.264 USD billion as compared to the lowest amount at 1.433 USD billion in 2005.

Table 19: External debt- Undisbursed Official Creditors* in USD Billion

Year	Amount in USD Billion
2005	1,433.040
2006	1,673.040
2007	1,961.895
2008	2,209.589
2009	2,126.910
2010	3,010.987
2011	3,005.767
2012	3,302.994
2013	3,226.907
2014	2,822.849
2015	4,008.640
2016	4,250.256
2017	4,624.000

Source: www.CEICDATA.COM/ World Bank

* *Debt from official creditor includes loans from international organizations (multilateral loans) and loans form governments (bilateral loans)*

2.8. COVID 19 Commitments

The government of Tanzania has so far received the following commitment for COVID 19 financing:

1. US$ 14.3 million through the Catastrophe Containment Relief Trust (CCRT). In June 2020, the Executive Board of the International Monetary Fund (IMF) approved a grant under the IMF's Catastrophe Containment and Relief Trust (CCRT) to cover Tanzania's debt service falling due to the IMF from today to October 13, 2020, the equivalent of US$14.3 million. Additional relief covering the period from October 14, 2020 to April 13, 2022 will be granted subject to the availability of resources in the CCRT, potentially bringing total relief on debt service to the equivalent of about US$25.7 million. The debt service relief will contribute to alleviate Tanzania's balance of payment needs stemming from the COVID-19 pandemic. (IMF 2020).

US $ 3.98 World Bank Emergency Financing facility approved in October 2020. This is a grant which is aimed at funding response efforts arising from COVID 19.This includes, but not limited to supporting front line health workers, drugs and medicines, essential and critical lifesaving medical equipment, logistics communication and coordination.

2. USD $ 50 million concessional loan from AfDB in October 2020 as COVID 19 response budget support .The loan is aimed at building economic resilience, while mitigating the socio-economic and health impacts of the COVID-19 pandemic, particularly on local businesses, vulnerable households and the country's health system.

3. Euro 27 million through EU COVID 19 response package aimed at assisting the government to mitigate effects of COVID 19.

Data on how much has been disbursed so far was not available.

2.9. Sectors that have had the biggest external debt

The profile of external debt by use of funds as at end of June 2019 indicates that most of the debt contracted was utilized for budget and balance of payment support, energy and mining, agriculture and industrial development, and transport and construction activities. For the year 2016/17 BOP and budget support received 22.6%, Transport and telecommunications received 17.7%, Agriculture and industry 16.1%. Likewise, energy and mining received 14.6 and social welfare and education received 13.6 %. The composition was almost the same in 2018/19. More debt is being undertaken by the central government in order to meet infrastructure needs and general development goals driven by vision 2025.

Table 20: Composition of external debt by use of funds as at end of June 2019

Sectors	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
BOP&budget support	23.4	22.6	22.9	22.6	21.7	22.0
Trans&Tel	20.4	16.4	16.0	17.7	14.5	15.0
Energy &Mining	17.1	15.5	14.7	14.6	16.0	16.5
Agri&Indust	13.4	16.0	16.9	16.1	15.8	14.4
Social Wel&Educ	13.7	14.1	13.6	9.8	10.5	11.5
Fin &Ins	6.6	6.5	6.4	9.0	9.7	9.1
Other	5.4	8.9	9.5	10.2	11.8	11.5

Source: Author's compilation based on debt series from Bank of Tanzania's Annual REPORTS

2.10. Status of Domestic Debt

The stock of domestic debt at the end of June 2020 was TZS 15,515.7 billion, equivalent to 10.8 per cent of GDP in nominal terms. Data available in table 23 indicate that domestic debt has been increasing over time. It increased from TZS 6,986.5 in 2013/14 to TZS 15,515.7 in 2019/20. The profile of domestic debt by instrument shows that, the share of Government bonds has increased to 72.2 per cent by end of June 2020 from 62.2 per cent recorded in 2018/2019.

Table 21: Domestic debt stock in TZS billions

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Total domestic debt	6,986.5	7,989.8	11,193.1	13,335.4	14,732.1	14,863.2	15,515.7
Bonds	5,091.4	5,745.2	6.331.2	8,155.5	10,135.8	10,546.5	12,497.6
Short term	1,895.1	2,244.6	4,861.9	5,179.9	4,596.3	4,316.7	3,018.1

Source: Ministry of Finance and Planning and BOT various reports

2.10.1. Domestic debt by instruments

The dominant debt instrument used by the government to borrow is government bonds. The percentage trend shows that the composition of bonds was 73.9 and 71.3 percentages in June 2014 and June 2015 respectively. It then dropped to 602 percentages before it started picking up to 78.8 percent in June 2020. Treasury bill was the second source of government financing. Over the seven years period the percentage contribution has averaged 23.8 percent. The trend shows that treasury bills are declining as compared to the increased use of government bonds. The increase in the use of Government bonds is consistent with implementation of Government's strategy of lengthening maturity profile of domestic debt through using of long term instruments of financing.

Table 22: Domestic debt by instruments

	June 2014		June 2015		June 2016		June 2017		June 2018		June 2019		June 2020	
Instrument	Amount	Share%	Amount	Share%	Amount	Share%	Amount	Share%	Amount	Share%	Amount	Share%	amount	share
Government securities	6,529	99.9	7,591.4	98.7	9,961	99.5	11,770.5	99.8	12,776.4	86.7	13,603.1	91.5	14,715.7	94.8
Treasury Bills	1,444.1	22.1	1,849.5	24	3,673.8	36.7	3,633.3	30.8	2,659	18	3,075	20.7	2,236.5	14.4
Government stocks	257.1	3.9	257.1	3.3	257.1	2.6	257.1	2.2	257.1	1.7	252.7	1,7	252.7	1.6
Government Bonds	4,827.8	73.9	5,484.8	71.3	6,030	60.2	7,880	66.8	9,860.3	66.9	10,275.3	69.1	12,226.4	78.8
Tax certificates	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0,1	0.0	0.1	0.0	0.1	0.0
Non securitized debt	6.5	0.1	103.2	1.3	51.8	0.5	18.4	0.2	1,955.7	13.3	1,260	8.5	800.0	5.2
Other liabilities	N/A	N/A	N/A	N/A	N/A	N/A	18.4	0.1	18.4	0.1	18.4	0.1		
Overdraft	N/A	N/A	N/A	N/A	N/A	N/A	1,546.6	11.6	1,937.4	13.2	1,2417.7	8.4		
Total domestic debt	6,535.5	100	7,594.6	100	10,012.8	100	11,788.8	100	14,732.2	100	14,863.1	100	15,515.7	100

Source: Ministry of finance and planning and BOT reports

Other liabilities includes NMB bank plc. Standard loan and duty drawback

2.10.2. Holders of Government domestic Debt

Commercial banks remain the leading investors, accounting for 34.2 percent of total domestic debt followed by pension funds, which accounted for 28.4 percent in June 2020. The participation of private individuals is still very low, although it has started picking up as a result of government awareness campaigns.(See table 25 below).

Table 23: Holding of government domestic debt

	June 2014		June 2015		June 2016		June 2017		June 2018		June 2019		June 2020	
Holder category	Amount	Share%	Amount	Share%	Amount	Share%	Amount	Share%	Amount	Share%	Amount	Share%	amount	share
Commercial banks	3,303.3	50.5	3,668.4	48.3	4,506.2	45	5,121.5	38.4	5,297.2	36	5,340.1	35.9	5,304.7	34.2
Bank of Tanzania	1,490.8	22.8	1,659.8	21.9	1,463.6	14.6	2,986.4	22.4	3,272.6	22.2	3,868.5	26	2,064.9	13.3
Pension Funds	983.9	15.1	1254.5	16.5	2,218.1	22.2	3,376.4	25.3	3,641.2	24.7	2,529.9	17	4,413.2	28.4
Insurance	454.7	7	617.4	8.1	982.9	9.8	1,093.2	8.2	1,181.8	8	1,363.9	9.2	1,201.2	7.7
BOT special funds	165.4	2.5	190.4	2.5	N/A	N/A	N/A	N/A	N/A	N/A	284.4		316.3	2.0
Other public entities	N/A	N/A	N/A	N/A	260.2	2.6	162.4	1.2	265	1.8				
Others	137.3	21	204	2.7	581.8	5.8	595.5	4.5	1,074.4	7.3	1,476.5	9.9	2,215.5	14.3
Domestic Debt stock	6,535.5	100	7,594.6	100	10,012.8	100	13,335.4	100	14,732.2	100	14,863.1	100	15,515.7	100

Source: Ministry of Finance and Planning and BOT various reports

CHAPTER 3:

IMPLICATION OF DEBT SERVICE ON TANZANIA ECONOMY

3.1. Cost and risk to the country's domestic revenues vis a vis debt repayment

Domestic revenue generation in Tanzania is still insufficient to meet planned expenditure.(WB 2020) During the year 2019/20 domestic revenue was 14.7 percent of GDP as against expenditure of 16.4 percent of GDP. Interest payments on debt accrued has been increasing in nominal terms as indicated in table 3.1. Interest payments as a percentage of domestic revenue has been increasing over time from 8 percent in 2013/14 to 13.1 percent in 2019/20.

Debt service increased from USD $ 214 million to USD$ 1,617.6 million in 2019/20. On the other hand interest payments have also increased from USD $ 112.5 in 2013/14 to USD $354.6 in 2019/20. As per 2020/21 budget speech debt repayment was estimated to consume 18 percent of the Government budget.

Rising debt repayment costs are potentially influenced by changes in the foreign exchange rate and accumulation of external debt arrears. The rising cost of debt payments clearly undermines public debt sustainability in the medium and long term outlook and diverts the needed resources for development.

Table 24: Interest payments of external debt in millions of USD dollars

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Debt service	214.0	423.1	591	854.2	1,072.3	990.5	1,617.6
Principal	101.5	208.6	334.4	544.7	760.7	693.2	1,263.0
Interest& other charges	112.5	214.5	256.6	309.5	311.6	297.3	354.6
Debt Servicing as % of exports	4.3	5.6	10.9	9.7	9.3	15	11.9
Interest payment as a % revenue	8	9	10.7	10.1	5.2	11.6	13.1
Debt service /GDP	3.5	4.0	5.0	6.4	7.6	6.8	5.8

Source: Ministry of Finance and Planning and BOT various reports

** Threshold for debt service as a percentage of exports is 21 %*

*** Threshold for debt service as percentage of revenue is 23% as per IMF guide for DSA.*

3.2 Debt sustainability outlook

Tanzania remains at a low risk of external debt distress as indicated in DSA results of 2020, 2019, 2018 and 2017 presented in table 27. All the debt burden (solvency and liquidity) indicators are below their respective thresholds under both baseline and extreme shock scenarios throughout the projection period. The solvency indicators show that Present Value (PV) of external public debt to GDP is projected at 17.3 percent in 2020/21 and will slightly increase to 17.9 percent in 2023/24 and afterwards will decline to 7.2 percent by 2040/41, all below the threshold of 55 percent.

Likewise, the PV of external public debt-to exports is projected to decline from 113.2 percent in 2020/21 to 68.0 percent in 2030/31 and thereafter decrease to 34.9 percent by 2040/41, well below the threshold of 240 percent.

The liquidity indicators show that the ratio of debt service to exports is projected to decrease from 14.0 percent in 2020/21 to 10.3 percent in 2023/24 and 7.0 percent in 2040/41, which is below the threshold of 21 percent.

The debt service to revenue is projected to decline from 13.7 percent in 2020/21 to 12.5 24 percent in 2023/24 and likewise declines to 8.3 percent by 2040/41, also below the threshold of 23 percent.

Table 25: Debt sustainability analysis indicators

External Debt Indicators	2017/18	2018/19	2019/20	2020/21*	2021/2022*	Threshold
PV of debt/GDP	19.7	15.9	16.3	16.8	17.6	55
PV of debt/Export	81.8	112.4	103.9	110.9	116.7	240
Debt service/export	9.3	15.0	11.9	11.1	9.5	21
Debt service/revenue	13.3	15.0	11.9	10.1	10.7	23
Public Debt Indicators	2017/18	2018/19	2019/20	2020/21	2021/2022	Threshold
PV of Public debt/GDP	34.4	27.2	27.1	27.5	28.1	70
PV of public debt/revenue	194.5	182.5	163.7	175.6	178.4	NA
Public debt service/Revenue	26.3	49.6	33.4	29.7	27.5	NA

Source: Ministry of Finance and Planning and various DSA analyses

**Forecasted*

** Thresholds are adopted from the debt sustainability framework for low income countries (IMF, 2018)*

DSA (2020) also shows that the Composite Indicator (CI) calculated based on the October 2020 World Economic Outlook (WEO) for Tanzania is 3.07, indicating that the country's debt-carrying capacity is strong. Further, DSA 2020 results indicate that Tanzania remains at a low risk of external debt distress whereby all the debt burden indicators are below thresholds under both baseline and alternative scenarios throughout the projection period. However, the country's public debt is susceptible to export, contingent liabilities and primary balance shocks.

Country Policy and Institutional Assessment (2018) score for Tanzania was 4.2 and was ranked 14th out of 37 African countries. Sovereign credit ratings by Moody's for Tanzania shows that in 2020 the rating was B1u but was reduced to B2u in 2021 signaling a negative rating. (African Financial Markets Handbook 2021).

The WB (2021) economic update also asserts that public debt remains sustainable, but its composition may increase liquidity risks. Commercial debt, which does not include an estimated 3-4 percent of GDP in domestic payment arrears, increased from just 4 percent of total debt in 2011/12 to about 20 percent in 2019/20, driven by the financing needs of large capital projects.

Debt sustainability is also potentially affected by exchange rate risks which may occur in future. Although currently the shilling is considered stable(BOT 2020), likelihood of current account deteriorating due to lower export volumes in the post COVID phase may induce undesirable fluctuations in the exchange rate causing higher debt payments.

The increased appetite by the Government to borrow in order to fund public projects may also pose a risk to debt sustainability if the projects do not really support economic growth. Efficient public borrowing is required in order to avoid debt distress in future.

Contingent Liabilities

The Tanzania-contingent liabilities study done in 2014 indicated that the amount of guarantees requested and issued have been increasing, see table creating a potential risk to the Government budget and threatening fiscal sustainability. Forms of contingent liabilities in Tanzania include the following:

(i) Government loan guarantees.

(ii) Guarantee schemes for export and small and medium enterprises credit schemes.

(iii) The Government also has the responsibility to guarantee employee benefits in Pensions and social security schemes, liability take over under privatization, proper risk sharing under PPP arrangements, settling litigations and disputes.

The total stock of contingent liabilities has been increasing as depicted in table 26.

Table 26: Stock of Contingent Liabilities 2008/09 to 2012/13

	2008/09	2009/10	2010/11	2011/12	2012/13
Export Credit Guarantee	57.43	39.807	197.84	233	295.4
SME Guarantees	3.687	1.303	1.262	0.574	0.574
Higher Education Loan guarantees					90.59
Total Contingent Liabilities	61.117	41.11	199.102	233.574	386.564

Source: The Tanzania Contingent Liabilities Study 2014

Estimates by the Ministry of Planning extracted from the Tanzania Contingent Liabilities Study (2014) also show (as end June 2012), aggregate contingent liabilities was TZS 7.008 bn, in which the main contributors were; Claims by Social Security Funds (TZS 4.13 bn), Guarantees to MDAs (TZS 1.78 bn), on-Lent loans (TZS 664 mn) and Government guarantees to Public Corporations and Government Institutions (TZS 418 mn).

Current data on contingent liabilities was not readily available. However, The DSA report (2020) acknowledges that when the contingent liabilities are included, debt sustainability reaches higher levels though still under sustainable thresholds. If more and more contingent liabilities are realized then there is a stronger case for debt sustainability ceilings to be breached.

Domestic payment arrears

Payment arrears study undertaken by IMF (2014) indicated that quarterly monitoring of arrears by the Accountant General's Department (AGD) showed that payment arrears have risen from TZS 485 billion to TZS 1,301 billion over the three and half years to June 2014 (equivalent to an increase from 1.4% to 2.3% of GDP). Likewise the Comptroller and Auditor General report (2019) shows domestic payment arrears have decreased to TZS 2,687,140,232,434 as compared to TZS 3,109,419,395,085 in the year 2018.

The World Bank (2020) economic update sheds some light on the level of domestic payment arrears. The update indicates that Government domestic payment arrears remain unsustainably high, totaling nearly 6 percent of GDP. The most recently available data show arrears of the central government (to contractors/suppliers and pension funds) and utilities such as TANESCO to their contractors/suppliers were 5.7 percent of GDP at end-June 2018. This is down from the previous year due to clearance of arrears to pension funds, while payment arrears to contractors and suppliers increased substantially. (WB 2020)

Comprehensive data for domestic payment arrears was not available because of poor reporting and lack of transparency. Increased accumulation of domestic payment arrears potentially may provide fiscal challenges to the Government in future.

The World Bank (2020) economic update sheds some light on the level of domestic payment arrears. The update indicates that Government domestic payment arrears remain unsustainably high, totaling nearly 6 percent of GDP.

CHAPTER 4:

RECOMMENDATIONS TO DEALING WITH THE DEBT PREDICAMENT

4.0. RECOMMENDATIONS

Based on the foregoing debt profile analysis, the below are recommendations to ensure effective debt management.

4.1. Legal Framework

4.1.1 Current legal framework does not reflect new financing landscape. Need to review in order to have proper legislation to manage national debt.

4.1.2 The Parliament should be part of the process of contracting required debt rather than just being informed of the extent/status of debt.

4.2 Policy related

4.2.1 There is a need to improve transparency and accountability in debt contracting (easy access to the right information to hold government to account).

4.2.2 The government should adhere to IMF's Code for Fiscal transparency (revised 2013, Section 3 under Fiscal Risk analysis and management) and IMF's Public Sector Debt Statistics-Guide for Compilers and Users (2012, chapter 9 section D Fiscal Risk and Vulnerability) in order to have comprehensive data on contingent liabilities and payment arrears.

4.2.3 Like minded Civil Society organizations should develop a formal mechanism in order to allow active advocacy, communication and dissemination of debt issues.

4.2.4. Having graduated to a low middle income country, Tanzania will now have very little opportunities to access concessional loans. To meet flagship projects and other social sector needs, The Government should prioritize concessional financing in order to ensure that projects financed have large impact on growth and exports.

4.2.5. The Government should on a continuous basis improve the business environment by fully implementing the blue print document so as to increase private sector investment required to promote economic growth.

4.2.6. The government should strengthen domestic revenue mobilization by:

- Widening the tax base
- Improving tax administration
- Combating corruption in tax collection
- Strengthening collections from non-revenue
- Efforts should be done to formalize the informal sector for taxation
- Remove inefficient tax exemptions
- Improving expenditure management through enhanced fiscal discipline.

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