Project Title: Public Debt Management – Accountability and Policy Advocacy (PDM-APA)

Duration: 2023-2025

SUMMARY

Since 2013, debt in Africa has risen rapidly with the median debt to-GDP ratio as percent of GDP increasing to 53 percent in 2017. As a result about one-third of the countries in sub-Saharan Africa are classified as being either in or at high risk of debt distress, including the majority of countries that benefited from debt relief in the 1990s from the International Monetary Fund and World Bank.

The IMF and the World Bank launched the HIPC Initiative in 1996 as the first comprehensive effort to eliminate unsustainable debt in the world's poorest, most heavily indebted countries. In October 1999, the international community agreed to make the Initiative broader, deeper, and faster by increasing the number of eligible countries, raising the amount of debt relief each eligible country will receive, and speeding up its delivery. Jubilee 2000 global campaign led ultimately to the cancellation of more than $100 billion of debt owed by 35 of the poorest countries.

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.

Social services provision has been impacted with the looming public debt in Tanzania, for-instance. It cost a lot of financial resources for public debt servicing than investing to social services sectors. According to the Ministry of Finance and Planning, United Republic of Tanzania 2018/2019 budget, the government allocated Tsh.1.41 trillion equals to $ 434.9 million for payment of domestic debt interest. Higher than the approved Tshs 1.40 trillion for the Ministry of Education, Science and Technology, and it is 5.3% higher than Tshs 1.33 trillion for previous fiscal year 2017/18.

Debt servicing budget is higher than the budget of three Ministries that is Ministry of Water, Ministry of Agriculture and Ministry of Education. The Ministry of water was located Tsh. 859.2 billion in 2018/2019; Agriculture Tsh. 170.2 Billion, an increase of 20% compared to FY 2017/2018. Tanzania’s debt-servicing costs averaged 7.1% of total government revenue for the period from 2015/16 to 2017/18, which was expected to have increased to 11.7% in 2018/2019. For 2018/2019 debt servicing was Tsh. 5.7 trillion from the total budget of 32.48 trillion. In 2019/2020 financial year, the government spent tsh.6.19 trillion budget to service the national debt. From 2019/20 to 2021/22, the public debt-servicing costs are projected to continue increasing to an average of 12.5% of total government revenue. Cost of servicing Tanzania’s public debt has increased which undermines debt sustainability. Debt servicing affects the quality of social services provided especially in health, education and water provision due to lack of enough budget hence affects the fiscal space.

Tanzania Debt Sustainability Analysis report of November 2021, as also cited by CAG report, indicate that debt-to-GDP ratio remains contained at around 30 percent, well below the 55 percent threshold meaning that this implies that the Tanzania public debt remain sustainable, but that does not deny the fact that its rapid growth undermines the growth of public service provisions and put the fiscal space is under pressure.

The DSA indicates that the external and the overall risk of debt distress for Tanzania are moderate. The pandemic's devastating effect on tourism inflows brought to light Tanzania's vulnerability to export shocks that threaten its capacity to service external debt. However, the healthy level of reserves of 5 months of imports serves as a significant buffer against these types of shocks. Other than a marginal breach in the debt service-to-export ratio, all other external debt burden indicators remain below the policy-dependent thresholds under the baseline scenario, but are breached under different shocks and stress tests, highlighting the increase in risk of debt distress since the last DSA. In particular, a narrow export base and one-time depreciation pose risks. The results highlight the importance of raising domestic revenue, improving public investment management, and leveraging concessional financing sources when available, while carefully selecting projects to be financed by commercial loans.

From the background analysis above it is a fact that Tanzania is in the moderate debt distress. Considering the government high appetite for borrowing due to construction of big infrastructure projects or investments in the country which cannot be financed by resources from local sources, sooner or later Tanzania is likely to enter into high debt distress which will culminate into a debt crisis. PDM-APA project therefore, intends to contribute to transparency, accountability and a clear role of Parliament in Debt Management in Tanzania.

According to the Bank of Tanzania (BoT) monthly economic review, the debt stood at $33.7 bill at the end of July last year, having increased by $3.9 billion from July 2020. On the other hand, constituting public debt and private sector external debt, amounted to USD 37,838.1 million at the end of March 2022, an increase of USD 6,426.7 million from the amount recorded in March 2021 and a decrease of USD 219.2 million from the preceding month, owing to appreciation of USD against other currencies in which debt is denominated. External debt, comprising public and private sectors, accounted for 74.9 percent of the national debt stock. Unsustainable external debt is still a threat to macroeconomic stability. According to the July 2022 Monthly Economic Review of Bank of Tanzania (BOT), Stock of national debt, encompassing public (external and domestic) debt and private sector external debt stood at USD 38,141.2 million at the end of June 2022, an increase of USD 623.3 million from the stock recorded end of May 2022 and an annual increase of USD 4,368.1 million. External debt, comprising public and private sector debt, accounted for 72.6 percent of the national debt stock.

The main challenge is in ensuring that debt is sustainable for the foreseeable future, given the need to scale up development infrastructure projects to address infrastructure gaps of roads, Standard Gauge Railway (SGR), bridges and energy amid dwindling donor financing, limited internal income generation from tax and non-tax revenue from local sources because the tax base is very narrow in the sense that there are very few tax payers in Tanzania leaving out the huge informal sector and that the challenges related to Domestic Revenue Mobilization (DRM) such as widening the tax base and tax evading and avoidance has not been addressed adequately to improve the tax collection in the country and the fact that Tanzania has become a middle income country since July 2020 is largely dependent on loans from

IMF, World Bank and commercial borrowing from Chinese Exim Bank hence increased annual fiscal deficit, changing debt structure and architecture as new lenders have emerged from BRICS countries led by China including commercial lenders led by Exim Bank of China as well, and a fragile global economy that has been hit hard by the COVID-19 pandemic. Commercial borrowing is in essence borrowing from commercial banks be it local or foreign at commercial rates which is the case for Tanzania after attaining a middle income status in July 2020. The country has no advantage of getting aid and grants as a least developed country as it used to get from foreign governments. A rapid external debt accumulation, particularly of commercial debt, could expose the country to external vulnerabilities and liquidity pressures relating to debt obligations. Given the rising cost of external debt servicing due to exchange rate fluctuations because all external debt is paid by foreign currencies, reliance on commercial debt could be too costly and as such should be used carefully and selectively, so as not to constrain the scope for enhancing socioeconomic progress in other areas of development. The emergency of BRICS (Brazil, Russia, India, China and South Africa) countries into debt business as new lenders especially China has significantly changed the debt architecture from the previous lenders the so called PARIS CLUB (Europe and America) then to a new mixed up basket including some new lenders from BRICS countries and a new lending system called commercial borrowing which was not there significantly and the decrease in concessional loans as opposed to non-concessional loans i.e. government to government borrowing which in essence had very minimal or zero rate to now commercial borrowing which has borrowing rates that are expensive to bear and a significant move towards commercial loans which amounted to 30.1% of Tanzania debt portfolio, according to Minister of Finance and Planning budget speech 2022/23.

In recent years, commercial borrowing as a share of new disbursement has increased to about 50 percent, and in FY2020/21 it was expected to reach 68 percent, as the government borrowed US$1.3 billion through commercial loans to finance the Standard Gauge Railway project. On the other hand, domestic debt stood at 10.8 percent of GDP at end-FY2019/20, with about a fifth of that stemming from short-term instruments. Commercial banks continue to hold the largest share of government debt, followed by pension funds. This means that Tanzania has to slow down a bit in terms of contracting new loans though the appetite for more loans is high due to development demands in the country as echoed by The World Bank has on Tuesday March 1, 2022 said that the risk of debt distress in the country has worsened from low to moderate exacerbated by poor performance of the tourism sector due to Covid-19 concerns.

This is according to the 17th Tanzania Economic Update, as released by the World Bank on March 1, 2022. This, as a result has led to borrowing of non-concessional loans from financial partners in order to keep the economy afloat.
As a result, the risk that Tanzania might fall into debt distress has been reaffirmed by the World Bank.

However, the international financial body advised on key areas that might help the country avert debt burdens. Most countries in sub-Saharan Africa – Tanzania in particular are in debt risk this is because they had borrowed in foreign currencies and are finding debt hard to finance after a significant depreciation especially at the moment where there is a slow pace of economic growth due to COVID-19 and war crisis between Russia vs Ukraine. The increased commercial borrowing makes the cost of debt repayment to go up as it forces Tanzania government to repay debt using local funds. Meaning that this is stagnating the growth of the social services provision and the growth of the economy hence countries dependence on foreign aid and debt are at standstill and poverty keeps dominating among the African countries. Better now to Maximization of financing from semi-concessional sources, while restricting commercial borrowing to projects with high impact on economic growth including those that promote exports (Medium Debt strategy 2020/21-2022/23, pg.28)

The bank says it includes enhancement of public-sector debt statistics, focusing on projects that promise clear socioeconomic payoffs, balancing emergency spending with broader development agenda. The current Government Loans, Guarantees and Grants Act NO.34 of 1974 as amended in 2004 provides a sole role to the government, through the Minister for Finance and Planning, to develop and approve the annual debt Management strategy and borrowing plan which in essence the Minister is the only person in his/her capacity who is allowed to borrow on behalf of United Republic of Tanzania (URT). Parliament which is an oversight body representing the people of Tanzania – has not been given a role in the review in this case to approve or disapprove or even make adjustments where necessary of the annual Debt Strategy and Borrowing plan. Neither has the Parliament exercised its mandate to question the details of the Debt Management Strategy and Borrowing Plan, largely due to limited awareness nor understanding of public Debt management issues, the increasingly market-oriented debt profile and associated risks particularly as the country continues to gravitate towards non-concessional sources of credit. Given the current legal framework, public financial management is neither accountable, nor transparent nor effective in that the reporting of the state of public debt which is supposed to be done after every six months is not systematically done it is done during the annual (?) budget speech which combines a couple of important budget issues therefore it is not easily traceable. Currently, there is no scrutiny in loan contraction beyond Minister for Finance and Planning and no oversight for performance of the loans.

Responding to MPs questions on public debt, during the budget session on 22nd June, 2022 the Minister of Finance and Planning, Dr. Mwigulu Nchemba (MP) hinted that, Tanzania Parliamentarians have limited knowledge on public debt management. Considering that this is a new parliament which started in November 2020 after the 2020 general elections where 60% of them are new and having MPs with limited knowledge on public debt management under the Government Loans, Guarantees and Grants Act which does not give the power of approval of Parliament, weak accountability structure and transparency show that there is a lot of work to do by TCDD and other civic actors.

Linking national and local level there is evidence of lack of citizen's participation and demand for accountability and transparency on the projects funded by public funds remains a dire need. This is more especially because the funds used is not considered as debt, but rather politicized as 'own public funds' which has been provided by the central government.' Had the citizen registered that the funds are loans, which they will have to pay through their taxes in future, directly or indirectly, their activeness on supervision of the completion and prudent use of the available funds would have changed and different as evidenced by Controller and Auditor General (CAG) annual report 2021. As such a need to raise public awareness on the value of borrowed funds where Tanzanians will be responsible to service debt through tax can’t be overstated. Therefore this project intends to build TCDD members capacity to actively participate in the monitoring of the projects funded by the public funds (especially loan funds) for enhanced social service provision. Lack of understanding of Public debt management by the general citizenry and, lack of engagement of citizens particularly youth is of paramount importance to achieve intergenerational succession plan transfer of knowledge of budget in general and public debt management in particular.

PDM-APA project will push for increased TCDD members’ participation, particularly among youth organizations, and increased capacity of TCDD members to hold government to account for development projects taking place in their localities for the improved basic service provision. The improvement of local services provision and huge infrastructure development has always been both the result of and a driving force for a greater sense of community responsibility and ownership, as communities are moved by the change they see. Schools are being built, roads have been constructed and opened up to new markets, and there is access to new, higher quality infrastructure.