
 THE CURRENT STATE OF EXTERNAL DEBT MANAGEMENT IN TANZANIA

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Abstract: The Highly Indebted Poor Countries (HIPC) initiative mainly by the World Bank and the International Monetary Fund has two features which distinguish it from earlier attempts to deal with the external debt problem of developing countries. First, unlike earlier strategies which resorted to dealing with bilateral or multilateral debt the HIPC initiative attempts to deal with the total debt. Secondly, it recognises that the existence of poverty is a constraint to servicing debt. This paper analyses the HIPC initiative in the context of Tanzania, a poor debt stressed and developing country and attempts to examine the country's indebtedness stance beyond the (HIPC) initiative.

INTRODUCTION

The external debt stance of Less Developed Countries (LDCs) including Tanzania has concerned policy makers in creditor as well as debtor nations in various ways and in different periods. At the on-set of the "debt crisis" in the early 1980s policy makers in leading financial institutions especially in North America and Western Europe were also equally worried about third world debt. The failure of indebted countries to repay the principle and interest on loans could disrupt the smooth functioning of financial institutions. Furthermore, this would not only affect profitability but also impair further lending (Griffith-Jones, 1988).

Similarly, policy makers in highly indebted countries (especially those in Latin America e.g. Mexico, Argentina and Brazil) were concerned about the magnitude and the means servicing of their external indebtedness¹. Mexico in particular was threatening to declare a unilateral action to stop honouring all external debt obligations. The Mexican argument was that it was almost impossible to repay the country's debt obligations in the midst of deteriorating international terms of trade. It was further claimed that since LDCs were facing increasing difficulties in accessing markets in developed countries, their export earnings were declining, and, with it, their ability to service the debt.

The fear in some creditor nations and in leading global financial institutions hinged further on the possibility of a band wagon effect that the Mexican action would create on other indebted countries were it allowed to default on its external debt obligations. Given this background it was therefore imperative for the creditor 'community' to bring pressure to bear on Mexico in-order to stop it from declaring a unilateral action against debt repayment.

Although Mexico and other significant Latin American countries succumbed to the international pressure it was clear to most creditor countries that LDCs indebtedness was a phenomenon that demanded more attention than hitherto socioeconomic problems including abject poverty (Bagachwa, 1994).

The current focus of policy makers in creditor and debtor nations and institutions alike has tended to shift to sustainable debt management policies and strategies as well as poverty reduction. There is, for example, increasing awareness among the creditor community that some debtor nations, especially those categorized as highly indebted and poor countries (HIPC) need special debt relief programmes and strategies designed in a sustainable manner. Hence the HIPC initiative is a recent approach by multilateral creditors (mainly the World Bank and the International Monetary Fund) that seek to address the debt and poverty stance of poor and yet highly indebted countries².

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¹ Griffith-Jones, (1988)

² See for example, World Bank (1999); BOT, (1999)

A critical analysis of this initiative suggests that without substantial debt relief and, confronted with increasing poverty and dismal export sector performance, poor and highly indebted nations are likely to, *defector*, default on their debt.

This paper uses the case of Tanzania to analyse the problems and prospects of an LDC country attempting to manage its external debt. The focus of the paper is on the 1990-1999 period, which has witnessed the proliferation of external debt management strategies, developed and advocated mainly by the creditor community. The late 1990s have also seen some tendencies and concern over increasing poverty and deprivation in LDCs.

SELECTED EXTERNAL DEBT TRENDS IN SSA

The failure of development efforts in Sub-Saharan Africa (SSA) during the past three decades has baffled policy-makers both in SSA and in the international community. Continued underdevelopment in SSA is a cause of global concern because it implies continued African poverty in the midst of prosperity for the rest of the world. Poverty, broadly defined as the inability to attain a minimum standard of living continues to be pervasive especially in LDCs where it is reported that almost one third of these countries population is affected by it (UNDP, 1990).

In most SSA countries, an initial spurt of growth immediately following independence was soon followed by stagnation and then decline: income per capita grew at an annual rate of 3.6 percent between 1965-73; from 1973-80, it increased annually at the rate of only 0.3 percent. Between 1980-89, income per capita actually declined at an annual rate of 3.4 percent. Indeed, because of the drastic deterioration in the socioeconomic conditions in Africa between 1980-89, the period is widely regarded as the "lost decade" of development opportunities on the continent.

There has been a widening gap in income not only between SSA and the industrialized countries but also between SSA and other developing countries. World Bank statistics reveal that while the income per capita in SSA remained essentially unchanged at US \$ 105 between 1963 and 1989, the per capita income of other developing countries virtually tripled, from US \$ 105 to US \$300. Available statistics also show that 19 nations in SSA are poorer today than they were a generation ago (i.e., their constant dollar GNP per capita was lower in 1989 than in 1965). Overall, the typical experience in SSA countries has been weak agricultural growth, declining industrial production, deficient export performance, escalating external debt, worsening social indicators, deteriorating institutions and accelerating ecological degradation.

An important issue, which has increasingly pre-occupied the minds of African and international policy-makers alike, is that of accelerating external debt and crippling debt service burden. Sub-Saharan Africa's debt and debt burden have risen sharply during the past two decades, especially since the onset of the global debt crisis in 1982. SSA's total external debt stock more than doubled in the 1980s, rising from US 56 billion in 1980 to US \$ 128 billion in 1987. Relative to exports and economic activity, SSA's debt is the highest of any region in the world. Between 1970 and 1987, SSA's ratio of external debt to GNP rose from 13 percent to 81 percent, exceeding that of the so-called "highly indebted countries" whose debt to GNP ratio stood at 48 percent.

There has been a pronounced deterioration in the terms and conditions of SSA's debt in recent years. This has resulted in a heavy debt-service burden. SSA's debt service ratio (debt service as a percentage of annual export earnings), which was only 15 percent in 1980, had climbed to over 50 percent in 1997. In 1989, SSA's debt-service burden (the ratio of

Table 1: *External Debt Developments in Tanzania: 1993-1999 (US \$m)*

Item	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00
1 Overall total debt committed, two of which:	8011.4	8440.7	7993.4	8038.8	7846.7	7972.9	7802.6
Disbursed	6427.1	6917.5	6496.2	6535.0	6379.7	6580.3	6509.6
outstanding debt	427.1						
Un-disbursed	1584.3	1523.2	1297.2	1498.8	1467.0	1392.6	1293.0
2 Disbursed debt by creditor category two of which:	6427.1	6917.5	6496.2	6535.0	6379.7	6580.3	6509.6
Bilateral Debt	3283.0	3426.3	3009.4	2941.2	2794.6	2798.3	2527.9
Multilateral debt	2724.1	3022.4	3008.4	3130.1	3094.6	3330.1	3495.0
Commercial debt	188.80	226.70	239.60	233.40	291.50	251.50	225.60
Private creditors	231.20	242.2	238.8	230.4	199.00	200.40	231.90
3 Disbursed debt by borrower category (2)	6427.1	6917.5	6496.2	6535.0	6379.7	6580.3	6509.6
Central Govt.	6077.1	6523.0	6093.0	6140.9	5950.4	6168.2	6068.4
Parastatals	215.40	220.50	205.20	196.30	175.40	165.10	192.00
Private sector	134.60	174.00	198.00	197.80	253.90	247.00	249.10
4 Disbursed debt by use of funds(2) of which:	6427.1	6917.5	6496.2	6535.0	6379.7	6580.3	6509.6
Balance of payment support	1747.0	1889.4	1659.6	1506.5	1481.9	1512.2	1214.8
Transport and telecommunication	1193.5	1325.1	1265.3	1326.4	1292.3	1337.8	1398.1
Agriculture	927.20	1017.3	950.60	941.00	906.30	963.80	1014.0
Energy and mines	695.50	691.80	709.80	735.70	787.10	821.80	559.30
Industries	647.60	654.00	597.60	559.50	522.10	504.40	505.90
Social welfare and education	207.40	219.00	238.40	256.20	274.90	192.70	316.60
Finance and insurance	204.70	215.10	190.70	182.20	166.60	215.50	243.6
Tourism	61.900	89.900	89.800	89.600	77.600	80.200	79.100
Others	742.30	815.90	794.40	937.90	870.90	851.90	877.90
5 Total loans contracted (1)	571.30	122.50	148.50	592.40	318.80	197.30	2318.8
Government	507.70	77.500	116.50	475.30	306.30	144.70	1297.3
Parastatals	6.3000	32.300	-	-	3.3000	4.6000	935.70
Private	57.300	12.700	32.000	117.10	9.2000	48.000	9.4000
6 Disbursement (1)	297.00	241.20	320.30	341.70	307.90	221.70	141.20
7 Total debt service (actual)-1	205.90	180.10	212.00	218.70	204.60	187.90	211.00
Principal	118.40	115.60	140.10	122.60	138.00	112.20	1021.5
Interest	87.100	61.700	71.800	95.500	66.400	75.600	620.00
Others	0.4000	2.8000	0.1000	0.6000	0.2000	0.1000	0.7000
8 Net transfer on debt (6-7)	91.100	61.100	108.30	123.00	103.30	33.800	218.50
9 Exports [goods & services] (1)	941.60	1089.6	1222.8	1251.5	1265.3	1080.1	181.30
10 Total debt service of goods and services (%)	21.900	16.500	17.300	17.500	16.200	17.400	17.500

Source: Debt Management Department, Bank of Tanzania

NB: (1) during the period; (2) debt service for 1992-95 have been in respect of ADF/ADB loans

external debt to exports of goods and services) amounted to 341 percent. The ratio of actual to scheduled debt service payments of SSA countries deteriorated during the 1980s falling from 66 percent in 1983 to 47 percent in 1989. Further evidence of debt distress is found in the fact that in 1986, 27 out of the 44 countries in Africa had payments arrears. Between 1986 and 1987, 23 SSA countries renegotiated their official bilateral debt through the Paris Club. Thirty SSA countries are now officially classified as "debt distressed".

Most governments of the Western creditor countries and the international lending agencies (IMF and World Bank) have an important role to play in the resolution of the debt and poverty dilemma facing LDCs. However, in addition to debt relief, a solution to these problems would depend on two important requirements, viz: (a) further financial assistance to SSA countries in order to supplement domestic saving, ease import strangulation, and strengthen the political sustainability of structural adjustment; and (b) adoption of sound domestic macro economic policies.

Tanzania's external indebtedness has been on the increase since the 1970s. While in 1970 the external debt stood at US \$ 265 million the amount multiplied five times to US\$ 1338 million by 1980. Between 1980 and 1990 the country's foreign indebtedness almost quadrupled from US\$ 1338 million to US\$ 4987 million. As Table I shows there was a slight slow down in growth of debt between 1990 and 1998 but it reached close to 8,000 mill US in 1998.

The total outstanding debt has been predominantly contracted from multilateral and bilateral sources. Throughout the 90's for example, the official debt made up over 90 per cent of total outstanding debt. Decomposition of official debt shows that bilateral debt constitutes a major proportion of total debt. In 1990 this was 60.1 per cent while multilateral debt was 31.3 per cent of total debt, although evidence also shows that bilateral debt has been declining compared to multilateral debt, since 1990.

We can also trace the evolution of the debt problem by the volume and pattern of loan disbursements. There has not been a consistent pattern in total disbursement. Between 1985 and 1986 total disbursements rose by 16 per cent while between 1986 and 1987 there was a 44 per cent decline in disbursements Kilindo (1993). This component rose again by 69.7 per cent between 1987 and 1988 only to drop again by 17.8 per cent between 1988 and 1989. There was a 10% decline of disbursement between 1990 and 1998. It is also shown in Kilindo (1993) that multilateral debt disbursements increased from US\$ 76 million to US\$ 161 million between 1985 and 1988 (112 per cent) but dropped to US\$ 135 million in 1989 (15 per cent). Bilateral disbursements marked a sharp decline from US\$ 79 million in 1985 to US\$ 22 million in 1989, despite making an increase to US\$ 86 million between 1985 to US\$ 22 million in 1989, despite making an increase to US\$ 86 million between 1985 and 1988. This is in contrast to the

Table 2: *Disbursed Debt by Creditor (%)*

Category	1990	1991	1992	1993	1994	1995	1996	1997	1998
Bilateral	60.1	57.7	52.7	50.7	49.5	46.3	45.0	43.8	42.5
Multilateral	31.3	37.7	40.8	42.6	43.6	46.3	47.9	48.5	50.6
Commercial	3.30	2.90	2.80	3.20	3.40	3.60	3.60	4.50	3.80
Others	5.20	3.80	3.80	3.50	3.50	3.60	3.50	3.20	3.10

Source: Computed from BOT (various)

marked increase in bilateral debt of 16 per cent between 1985 and 1989. During the 1990s, bilateral disbursement declined by 15% from 3283 mill US\$ 2798.3 mill US\$ in 1998.

Table3: *Disbursed debt by borrower (%)*

Category	1990	1991	1992	1993	1994	1995	1996	1997	1998
Central Govt.	92.5	93.0	94.5	94.3	93.9	93.3	93.3	93.3	93.7
Parastatals	6.30	5.50	4.00	3.70	3.50	3.40	3.00	2.70	2.50
Private sector	1.20	1.50	1.50	1.80	2.20	2.60	3.10	4.00	3.80

Source: Computed from BOT (various)

As foreign indebtedness increased the serving part was also rising at a fast rate. In 1974, the country had to part with US\$ 23.4 million to service foreign debt. By 1980, this more than doubled to US\$ 51.2 million. Debt service further escalated to US\$ 89 million in 1985 before making a decline to US\$ 73 million by 1989. There was however a rise to US\$ 95 million between 1985 and 1987. In 1990 debt service reached 122.6 million US\$ rising to US\$ 205.9 m by 1993. The servicing of debt declined slightly to US\$180.1 m in 1994 but reached US\$ 218.7m in 1997. A declining trend is however observable after 1997.

Compared to other Sub-Saharan African countries, Tanzania is among the debt distressed country. The problem began to be serious after 1985 as observed in Kilindo (1993). In 1982, the two indicators, i.e. debt export and debt-GNP ratios show that Tanzania was below the average of the groups while after 1985 the indicators were above average. This situation has persisted during the 1990s.

Table 4: *Selected debt indicators*

Category	1990	1991	1992	1993	1994	1995	1996	1997	1998
Debt service ratio	-	-	-	21.90	16.50	17.30	17.5	16.2	17.4
Debt service/GNP	7.40	7.60	9.60	5.80	4.50	4.40	3.60	2.90	2.40
Debt service/ recurrent budget	17.6	17.3	14.2	38.6	28.7	27.4	21.9	18.2	17.5
Disbursed outstanding debt/GNP	281.3	202.2	176.8	181.5	171.9	134.7	108.6	89.80	82.60
Disbursed out- standing debt/ exports of goods and services	2843.9	2675.5	2775.5	2793.1	2868.8	1884.4	1849.5	1665.2	2705.8
Disbursed out- standing debt/ total recurrent revenue	822.0	677.0	859.0	1204.0	1103.0	840.0	656.0	567.0	614.0

Source: Author's computations and BOT(1999)

As table 4 shows, Tanzania like a number of SSA countries was able to service only a small proportion of her debt service obligations. The amount, which is used to service the debt, absorbs a substantial proportion of export earnings and is more than total expenditure in both education and health. In Table 5 the debt service is compared to expenditures in health and education sectors.

Table 5: *Health and education expenditure compared to external debt servicing expenditure in Tanzania*

Item	1990	1991	1992	1993	1994	1995	1996	1997	1998
Debt service/ Health expend.	3.52	4.13	94.5	94.3	93.9	93.3	93.3	93.3	93.7
Debt service/ Educ. expenditure	2.71	3.73	2.24	8.36	7.89	13.71	10.47	8.80	7.60

Source: Same as in Table 4

The government's ability to finance social services from domestic resources is certainly affected by debt service payments. There is therefore scope for debt reduction that would significantly release funds for human development, as it would create space in the budget. While creating space in the budget, additional funds for social development should be generated. Suppose debt service is reduced by 20% this would translate into increased expenditure in health and education by 83% and 152% respectively for the 1998/99 fiscal years.

Despite debt scheduling measures recently dominating the handling of the debt crisis both the debt stock and debt service requirements have not been reduced. While the impact has been significant on the export side, the domestic budget has continued to be pressurized.

The debt overhang has meant costs to the recipient country. These usually impact the economy in terms of reduction in, for example:

- a) Utilization of existing productive capacity in private and public services;
- b) Utilization of public services;
- c) Maintenance of existing public and private human and physical capital stock; and
- d) Prospects for future growth and development due to reduced private and public investment.

These costs have certainly inflicted a heavy blow on the Tanzania economy due to magnitude of the debt burden facing the country.

EXTERNAL DEBT MANAGEMENT IN TANZANIA: THE PRE-HIPC EXPERIENCE

Following the Latin American external debt crisis of the early 1980s concerted efforts were made by multilateral creditors to ensure that highly indebted countries do not default but continue to honour their outstanding debt obligations (Griffith Jones, 1989). It was essential for the bilateral as well as multilateral creditors to design efficient and effective debt management strategies. One such strategy was to limit highly indebted countries to international credit facilities (Danielson and Mjema 1995).

In line with this strategy there is evidence (World Debt Tables, 1981, 1982, World Development Report, 1985) of substantial increase in borrowing terms including average interest rate, average grace period and average maturity period to certain debtor countries especially those categorized as highly in debt. The dilemma of the credit squeeze strategy was however that while it was effective in limiting new credit to highly indebted countries it was ineffective in terms of recovering the outstanding principal and interest. Most indebted countries became entangled in the "debt trap" (Griffith-Jones, 1989).

Inaccessibility to additional credit from financial institutions implied, among other things, slackness in their economic growth. This, in turn, had serious consequences on the ability of the indebted countries to service the outstanding debt. In countries where the credit squeeze impaired the export growth the servicing of the external debt became difficult and burdensome to their economies. Other debt management strategies were country specific and some were designed to support the economic reform programmes (ERPS) introduced in the early to mid 1980s. At this juncture it is imperative to discuss some of these strategies and their links to the ERPS. A discussion is also made on debt management strategies that did not have direct links to ERPS.

TANZANIA'S EFFORTS IN ADDRESSING THE DEBT PROBLEM DURING THE 1990S

The government of Tanzania adopted the "External Debt Strategy for Tanzania" in September 1993. The adoption of the strategy was a reflection of the acute debt crisis, which is characterized by both liquidity and debt overhang problems. The major objectives were, *inter alia*, to:

- i) Restore orderly relations with all creditors. This has involved initiating a dialogue with all creditors, whose debt is in arrears, with a view to settling all arrears, or repayment, and preventing the increase in outstanding debt, resulting from accumulation of penalty and late interest charges.
- ii) Reduce contractual debt service due in three years time, i.e. 1995/96, to a manageable level of about 20 percent of debt service ratio.
- iii) Prevent the build-up of an unsustainable level of debt and debt service obligations in the future.

In line with the above objectives, Tanzania has continued to seek full benefits of the conce-

ssional rescheduling by remaining current on its debt servicing obligation to the OECD creditors and continue to have an acceptable macro-economic program in place. The ultimate objective is to achieve a two-thirds cancellation of non-concessional debt to the Paris Club creditors. In dealing with OECD official debt, the Government has continued to have dialogues with all creditors with a view to reach rescheduling agreements on terms that are at least as good as those granted by Paris Club creditors. For the commercial uninsured debts, the strategy is to eliminate all arrears through a debt and debt service reduction operation that would use the International Development Agency Debt Reduction Facility, supplemented with bilateral grants to buy back its commercial debt at a discounted price.

Institutional and Capacity Building Aspects

The need for improving the institutional arrangements for contracting, recording, and monitoring of Tanzania's external debt, in support of the External Debt Strategy, is recognized and has been accepted. The major components of the proposed institutional arrangement have focussed on:

- i) Improving co-ordination of the procedures for approving new borrowings, which are based on clearly spelt-out criteria.
- ii) Ensuring that debt is serviced automatically.
- iii) Reviewing the policy of providing sovereign guarantees for private and parastatal debt, with a view to limiting such guarantees to only borrowing for non-commercial high-priority activities and only if available from concessional sources.
- iv) Operationalization of the Debt Co-ordination Committee (DCC) which is entrusted with the task of drawing up an action plan and timetable to complete all elements of the debt management strategy. The DCC is also responsible for overseeing

and coordinating procedures for approving new borrowings.

It has to be pointed out, however, that the objectives of the Debt Strategy Paper were not achieved, while institutional reform did not take place as intended. In this connection, it needs to be stressed that the country cannot afford to delay the implementation of the institutional reform anymore and that the new arrangements need to be operationalized immediately. An important element in the reform process is to make sure that the debt co-ordination committee plays its important role, especially in formulating an appropriate debt strategy and policy in determining borrowing levels, advising on benchmarks and terms for borrowings. It helps also in keeping an eye on the critical ratios to ensure that the debt stock does not become unsustainable in the future.

Additionally, setting up a mechanism to monitor the utilisation of loans is an equally important element to be considered under institutional arrangements. An important phenomenon, which is usually observed, is the under-utilisation of loans. The unused amount of undisbursed debt observed in the data base cannot solely be attributed to disbursement going unrecorded, but one could infer that some of the undisbursed balance shown is due to an under-utilisation of available funds.

In order to be able to put in place a proper institutional arrangement and implement a viable debt strategy for effective debt management, Tanzania has adopted a Model Capacity Building and Implementation Plan (MCBP). The Eastern and Southern Africa Initiative in Debt and Reserve Management (ESAIDARM) have developed the mode. Tanzania is a member of this Organisation and the mode is designed to guide member states to go through a process of developing workable plan to improve the current institutional capacity of the debt management system.

The Debt to Equity Swaps

The gist of this strategy was, in most cases, to allow creditors to make debt relief concessions in return for ownership of equity (shares) in state owned enterprises (SOEs) proportionate to the relief offered. The weakness of this strategy was however that the performance of most SOEs in a various LDCs was not attractive neither foreign investment nor foreign ownership. The effectiveness of this strategy in containing the debt problem was hence limited by this fact.

DEBT MANAGEMENT IN TANZANIA: THE HIPC INITIATIVE AND BEYOND

Akin to other indebted countries Tanzania has experimented with various debt management strategies with a view to alleviate the (indebtedness) problem. Indeed, as discussed earlier, the government has created National Debt Strategy (NDS) in 1997 and revised it in 1999 (Tarimo, 2000). The country has, through the (NSD) focused more on improving the domestic capacity to manage the debt and has continued with the strategy of negotiations with bilateral and multilateral creditors for debt rescheduling or debt cancellations. Tanzania, like other debt stressed countries has sought to manage its debt through the Highly Indebted and Poor Countries (HIPC) Initiative. The country qualified for the HIPC Initiative in April 2000. Before analysing level and extent to which Tanzania will benefit the (HIPC) Initiative it is instructive, at this juncture, to explain, albeit briefly, the contents and some critical aspects of the Initiative.

The HIPC Initiative

As Tarimo (2000) notes, the HIPC initiative is the first attempt at addressing external debt contracted from multilateral sources (World Bank, International Monetary Fund, African Development Bank and other multilateral

Financial Institutions). The background to the Initiative was the challenge to find sources of funds for debt stressed countries in the era of diminishing Official Development Aid (ODA). The HIPC Initiative was approved by the IMF and the World Bank in September 1996 (Sarbib, 1997). According to Sarbib (1997), World Bank (1996) and Tarimo (2000) the Initiative is firmly grounded on the following six principles:

- i) **Totality of debt:** According to this principle the objective is to target overall debt sustainability and provide a "true exit" for the debt problem. This, according to the World Bank (1996) is something, which has never been done before.
- ii) **An indebted country's track record:** This principle seeks to reward indebted countries which have demonstrated their willingness to manage their economics well by ensuring that they are the ones which actually benefit from the extra boost provided by the debt relief.
- iii) **Builds on existing debt relief mechanisms:** The HIPC Initiative does not intend to replace existing debt relief mechanisms like the Paris Club or the London Club. Instead, it seeks to strengthen, co-ordinate and integrate these mechanisms.
- iv) **Road participation of all creditors:** The Initiative has sought the broad and equitable participation of all (multilateral and bilateral) creditors. The assumption here is that the broad and equitable participation of all creditors is essential in designing an exit strategy to the debt problem.
- v) **Preservation of financial integrity of multilateral creditors:** This principle echoes what was discussed in the introduction section, that is, an unsustainable debt situation in debtor countries is also of concern to the financial integrity of creditors.
- vi) **Provision of new financing:** The HIPC initiative aims at providing heavily indebted countries with new financing on concessional terms. This, it is hoped, will ensure that the debt problem is not compounded while trying to solve it.

There are three aspects of the HIPC initiative, which makes it distinctive and unique from previous attempts to deal with the debt problem. These aspects are:

- i) Addresses the total debt i.e. both bilateral and multilateral debt. Earlier strategies focussed mainly on bilateral debt.
- ii) Recognises that the existence of poverty in indebted countries impairs their ability to service their debts. That is why the Initiative has stressed on utilization of debt relief funds in programmes that reduces poverty.
- iii) Stresses and gives importance to a consultative approach to debt reduction. In this respect not only does the Initiative encourage consultations between bilateral multilateral donors and the government concerned but also between stakeholders (e.g. NGOs, private sector and government). This is an essential ingredient of good governance, which the initiative introduces.

Having briefly analysed the key principles of the HIPC initiative as approved by the World Bank and the IMF the discussion is now focused on five critical elements of the HIPC Initiative and the way they have concerned policy makers and debt analysts especially in Africa. These are; eligibility debt sustainability analysis (DSA) and the performance criteria. These are briefly discussed here in so far as they concern not only Tanzania but other highly indebted countries as well.

Eligibility

For a country to be eligible to this Initiative it must belong to the poorest countries category.

Accordingly, its per capita income has to be less than \$800. Another eligibility criteria are that a country's debt has to remain unsustainable after full use of traditional debt relief mechanisms. Although other creditors are consulted, the Boards of the World Bank and the IMF must give the final eligibility verdict. So far a number of African countries have qualified for eligibility for the HIPC Initiative. The World Bank (1997) insists that it does not have a pre-determined list of eligible countries.

Debt Sustainability Analysis

This, according to the World Bank (1997), is the key analytical "linch pin" of the HIPC discussion for each country. World Bank, the IMF and analysts from the concerned country make a twenty-year balance of payments and other macroeconomic projections for the indebted country in question. As in other models, a set of assumptions are used in making the projections out of which a country's eligibility is decided. Similarly the amount of debt relief given to that country is also determined.

The DSA is a tripartite affair involving the World Bank, IMF and the concerned government. According to the World Bank (1997). "No government should accept to talk to either one of the institutions alone and the institutions should not work together without the participation of the concerned government". This is important in determining the speed of movement with this (HIPC) Initiative.

Performance Criteria

A measure of debt sustainability is the net present value (NPV) of the debt to exports (TD/EXP) and the Total Debt Service to Export (TDS/EXP) ratios. The target range of the TD/EXP ratio is between 200 and 250% while that for the TDS/EXP ratio is between 20 and 25%. (World Bank, 1996). The significance of these

ratios is that through empirical analysis countries that have maintained these ratios did not have difficulties in serving their outstanding debt obligations. These (TD/EXP and TDS/EXP) ranges were ranges in which the countries that have achieved them showed an ability to service their debt without any detriment to their development and investment effort. World Bank officials are however cautious of the fact limit to which these ratios can effectively be used as indicators of performance. On the importance of these ratios, Sarbib (1997) for example notes that:

These are not mechanical numbers and are not applied blindly. These ratios are taken in light of other factors, which are part of the vulnerability analysis, that is, a part of the DSA If a country has most of its exports concentrated in a few products that a vulnerability that has to be taken into account in the solidity of the projection and the solidity of what is being said (p. 74).

Briefly the TP/EXP and the TDS/EXP ranges are considered in the light of other (vulnerability) factors.

BEYOND THE HIPC INITIATIVE

A number of indebted and poor countries have reacted to the HIPC Initiative in almost euphoric proportions. News that one indebted country has qualified for HIPC eligibility have rekindled hope among policy makers and the common man that the country will not only benefit from significant debt relief but also improved social service delivery and growth. As Basuga-Nsadhu (1997) noted:

The HIPC initiative is now in the process of implementation, and we have received it very well with a lot of hope

However before Tanzania and other countries which have qualified for the (HIPC) Initiative can celebrate it is important to note that since the Latin American debt crisis of the 1980s

there have been numerous initiatives and strategies to address the problem. None of these strategies has so far attempted to write-off all the debt despite mounting evidence that highly indebted countries cannot repay the debt. The caution from Ross (1997) is worthy quoting at length:

All the debt initiatives that I know of, look to reduce debt to a level where it is sustainable for you to fund it in the future. I do not know of any serious proposal out there which creditors have considered where they are going to write off your debt in totality. The (HIPC) Initiative is welcome because it brings multilateral debt into the picture for some reduction. Do not expect that automatically 80 per cent of your debt is going to be written off any time soon... Your goals are to get the debt down to a serviceable level and promote investment and development in your country" (p. 93).

Although the HIPC Initiative is slightly more than three years old since its inception in September 1996 the caution raised by Ross (1997) needs to be taken seriously by policy makers in debt-distressed countries including Tanzania. That is why; it is necessary to look beyond the HIPC Initiative because like previous attempts we know that it will not wipe out Tanzania's external debt problem. Tanzania and other countries in its (indebted) position need to undertake the following alternative measures to address the problem.

Efficient and Judicious Utilization of Borrowed Resources

A lot of debt analysis has been focused on debt rescheduling and debt relief. Much less attention has been paid to concerns like where did the borrowed funds which are a result of the current debt problem go? It is ironic to see an African country or the continent for that matter in the midst of both poverty and yet grossly indebted without sentiments of improper utilization of the borrowed funds cropping up. Tanzania needs to change that image. It needs

to, as President Mkapa stressed in his New Year (2000) address to the nation, use the debt relief to improve basic social services including health, water education and rural roads. There must be qualitative and quantitative indicators to support the utilization of borrowed funds in this fashion. This strategy, if properly implemented has the advantage that it could be more appealing to the common people on whose shoulders, the debt burden rests.

Development of an Institution Mechanism for Debt Management

It is understood and appreciated that debt management in Tanzania is the responsibility of the Ministry of Finance and its related institutions including the Bank of Tanzania as outlined for example in the Government Loans, Guarantees and Grants set No. 30 of 1974. The Act empowers the Minister for of Finance to raise loans and grants on behalf of the Government of Tanzania (URT, 1999). This is clearly an old piece of legislation. As the government itself admit:

the act needs to be reviewed to reflect the current socioeconomic and political development, to meet the requirements for transparency and to involve stakeholders in decisions on debt issues (UR T, 1999: 11).

Other weaknesses in the current institutional mechanism for debt management in Tanzania include lack of co-ordination among the key players in the debt management and deficiency in professional capacity (URT, 1999: 11). This (coordination) weakness has to be addressed immediately rather than later.

Development of a Local Capacity for Debt Management

In the past the criticism in handling the debt problem in Tanzania was directed to the fact that the debt data was classified (Lyakurwa,

1984, Mjema 1994). Nowadays, thanks to the Bank of Tanzania and other institutions, the debt data is public and current. The current flows in dealing with the debt problem in Tanzania are that the debt is analysed almost entirely from the creditor point of view. There is little mention of for example, the Debt Conversions, debt swaps, debt rescheduling debt cancellations under the London Club, Paris Club, Toronto and Naples Terms. Seldom has there been an alternative debt strategy, which shows emphatically, and convincingly the effects of debt servicing to a poor country like Tanzania. The alternative strategy could also show the advantages (to international trade and the environment) of total write-off of debts to Tanzania. It (the alternative strategy) could also appeal to multilateral and bilateral creditors that under the current situation it is impossible to repay the debt, the contractual obligations notwithstanding. However, to develop an alternative (debt) strategy a country needs to develop a local capacity first.

With or without the HIPC initiative policy makers especially those charged with debt management in Tanzania have to ensure that any future debt contract meets the criteria that the marginal cost of debt is at least equal to its marginal revenue. Apparently that is how all creditors evaluate their loans. If this criterion is always used, we can be sure that future debt obligations will be sustainable.

CONCLUSION

There has been various attempts and strategies developed mainly by bilateral and creditors to deal with the debt problem of developing countries. The HIPC Initiative is the first of its kind that has attempted to address both bilateral and multilateral debt and seeks to provide what has been termed as the "exist strategy" to the debt problem facing highly indebted and poor countries. The HIPC

initiative builds upon existing strategies including those endorsed under the London and Paris Club arrangements. Viewed as such the Initiative is not a totally new strategy. What is perhaps new is its incorporation of other multilateral debt, the concern about poverty and the consultative approach it seeks to address. The HIPC Initiative has been welcome by a number of poor and highly indebted countries like Tanzania for the prospects of debt relief it offers. However the HIPC Initiative has its conditions including the performance criteria in which aspiring countries have to reach and maintain some pre-determined total debt to exports (TD/EXP) and total debt service to exports (TDS/EXP) ratios. For countries that can fulfil these conditions the (HIPC) Initiative will undoubtedly go a long way in providing a substantial debt relief. Several questions however remain undressed especially on the efficacy of the initiative in solving the debt problem. Some of these include whether the majority of the people in indebted countries on whose shoulders the debt problem rests will finally feel the debt relief thus provided.

Second the DSA is based partly on the export performance of an indebted country. In the case of Tanzania for example and indeed in a number of debt stressed countries in SSA, there are number of factors (e.g. bad weather, unfavourable terms of trade, exchange rate policies and tariff and non-tariff barriers) which negatively affect the export performance. A sustainable debt initiative has to address these factors too. Finally in analysing the debt management problem beyond the HIPC Initiative it is necessary for Tanzania and other countries in its position to critically look for alternative debt management strategies that the countries can design and implement. This can only be effectively done if the reasons for continued borrowing are known and the borrowed funds are productively and efficiently utilized.

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