THE PREREQUISITES FOR AN EFFECTIVE EXTERNAL DEBT MANAGEMENT; THE TANZANIA EXPERIENCE

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Abstract

Tanzania's external debt has grown unchecked since mid 1970s. The country's capacity to repay external debt did not match; neither was it considered in the loan procurement process. Pragmatism requires that the country re-examine its commitment to external debt management by taking prerequisite measures that operationalize effective debt management. Some of the essential ingredients for this management are:

(i) *Centralised location of all information on external borrowings, contributing to a sound data base. Such locus be given sufficient powers, status ad authority to enforce reporting requirements and to implement debt policies.*

(ii) *Clearly laid out institutional arrangement for loans procurement, utilisation monitoring and effecting debt service payments selectively.*

(iii) *Clear co-operation and co-ordination among the various parties involved, particularly the Treasury, Planning Commission, and Central Bank through the Debt Co-ordination Committee and Debt Management Committee.*

(iv) *Search for feasibility of reversing the debt accumulation process in the context of debt management for economic development. One feasible area being widening of private sector's access to resources from the international financial system; and use of bonds as an instrument in debt finance.*

These and other related issues are raised, albeit briefly in this paper.

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1. Introduction

This paper is about prerequisites in effective external debt management. Its focus is Tanzania, a country with substantial external debt accumulations.

The aim is to register the recognition that the external debt burden and effective debt management have an impact on economic development. In that context, policy makers need to pay heed that policies of managing existing debt and borrowing fresh money need professional advice and orientation of various kinds, reflecting the interdisciplinarity of debt management. Economic analysis aims to avoid or at least minimize risk. Financial analysis attempts to spread risks. Last but not least, legal analysis tries to allocate risks among parties to the contract. (1)

2. The Data Base

A centralized well-functioning system of data collection and information services is crucial for a sound debt management. This data must keep track of the evolving debt stock, provide information on trends of lending conditions in international financial markets, register the salient point of all loans (including financial as well as other legal terms), and present profiles on lender performance.(2) Indeed, it has to be some kind of a "watch dog" of a country's external behaviour.

A computerized Commonwealth Secretariat - Debt Recording and Management System (CS-DRMS) used by the Bank of Tanzania since October 1988, was a significant departure, that improved Tanzania's external debt stock record.(3) That was a necessary condition for institutionalizing Effective External Debt Management. The CS-DRMS (debt) system of the BOT seem to be more reliable and more developed than the CS-DRMS (grants) systems or the PROMIS system used by the Planning Commission.(4)

The CS-DRMS (debt) system is now in use in forty countries worldwide within and outside the Commonwealth.

Another comparable and competitive computerized external debt management system is the Debt Management and Financial Analysis Systems (DMFAS) designed by UNCTAD in 1985. It is used in 33 countries including Burundi, Rwanda, Uganda, Zambia, and Zimbabwe.

No comparative study has been undertaken to assess the effectiveness of the CS-DRMS and DMFAS; however Tanzania's Debt Management Unit (DMU) seems to be satisfied with the CS-DRMS. In addition, it seems that the DMU manages to adjust data to comply to the World Bank Debtor Reporting Systems, without much difficulty.

Kumar (1992) observes that to enable both the accounting and management functions to be performed effectively, three sets of information are required for each loan. These are the basic loan particulars, disbursements, and debt service payments.(5)

The basic loan particulars are available from agreements and include such items as the borrower, lender, the disbursement agency (if different from lender), the amount and currency of the loan, the currencies of disbursement and debt service; the purpose, start and terminal dates of disbursement, terms of debt service, the implementing agencies and the economic sector to which funds are applied. A proper classification for different creditors (bilateral, multilateral, parastatal and private) and the guarantee status of the loan is important for management reports on the status of external debt. This information has to be supplied to the World Bank in any case as part of the member country's reporting requirements. For Tanzania and other severely indebted low income countries it is also useful to monitor the conditionalities attached to a loan before it becomes effective and disbursements can begin.

Information on disbursements, both forecast and actual is required and this is usually obtained from creditors and implementing agencies. Information on forecasts of disbursements can pose difficulties, but it is necessary for forecasting accurately payments of interest and commitment fees. The centralized DMU will need to maintain a close liaison with implementing agencies to revise these forecasts in the light of actual experience.

Another source of information for forecasting disbursements are the claims made for reimbursement by implementing agencies where this is the method of disbursement.

Data on actual disbursement is also usually difficult to capture. This is partly because the disbursements could be on reimbursement basis or paid directly to the supplier or contractor, or both or by other means. Information on these is usually sent by the creditor for each payment or at periodic intervals covering a number of loans. World-wide experience reveal that there have been instances of creditors not being able to identify disbursements on different loans separately. There are also cases where creditors adjust actual disbursements against debt service that is in arrears. If disbursements are based on a reimbursement basis, the information could be captured at the time inward remittance is received by the Central Bank but again some creditors fail to distinguish such disbursements separately for each loan (Kumar, 1992).

It is important to note that the date of actual remittance may differ from the date of disbursement used by the creditor for the purpose of computing interest and commitment fee charges. It is also necessary for a country like Tanzania to have a systematic framework for monitoring the utilization of loans, particularly delays in disbursements or in claiming reimbursements.

The information on debt service, both forecast and actual, cover payments of principal, interest, commitment fees service fees and other charges as well as any late or penalty fees. This should also include changes resulting from modifications to the loan agreements such as enhancements or cancellation of the original loan amount, rescheduling, refinancing, prepayments and write offs. Particular attention should be paid to loans whose debt service is affected by exchange rate adjustments as in the case of World Bank and Asian Development Bank loans.

Besides creditor statements, the Accountant General or a similar agent is usually the main source of information for government debt service, and the Central Bank for private borrowings. In case of parastatal and private loans, information has to be obtained from the borrowing agency itself.

Apart from information on a loan by loan basis, the DMU should also compile information on an aggregate basis to assist in active debt management. The aggregate data should include the average terms of commitment (e.g. maturity structure, grace period, average interest), new commitments and draw downs as well as forecasts of debt service by borrower and creditor.

3. Institution Building

For any effective debt management system, it is necessary to ensure that there are clearly laid out institutional arrangements for contracting loans, for monitoring their utilization and for making debt service payments.[6]

Tanzania's key players in debt management include the Ministry of Finance (MOF), Planning Commission (PC), Central Bank (BOT), the parastatal, and private sector.

The Debt Co-ordination Committee (DCC) found in March, 1995 has representatives from the MOF, PC, and BOT holding very senior positions. These Institutions are well represented. It is obvious that the composition favours the public sector.

The DCC being the highest institution for advice on matters related to debt policy, has a duty to see to it that the Loans, Grants and Guarantees Act of 1974 is updated and implemented. The Act should also incorporate aspects of loan contracting, utilization and servicing by the private sector; so long as the Capital Account remained unliberalized.

The function of DCC were superb on paper.[6b] The first meeting of the DDC was held in March, 1995. It was supposed to meet quarterly. This did not happen. However the detailed work in debt management is handled at monthly interval by the Debt Management Committee (DMC).[7]

A survey of functions of the DCC and DMC reveals that the former plays the policy making role, whereas the latter handle the managerial aspects in external debt management. Apparently there was no potential role conflict.

Institutions involved should contribute positively to the flow of information relating to government, parastatal, Central Bank and private borrowings. Apart from information flows, there was a need to set out loan contracting procedures to ensure that each borrowing, both public and private, was authorized and fit into the external financing plan of the country.

Experience has shown that very often MOF may only record official loans extended to the government. Same may record parastatal and private borrowings if they were guaranteed by the government and even then, only partially. Little attempt was made to collect information on unguaranteed debt on an organized basis until payment problems arise.

The same may apply to short term borrowings. The information was often buried in the files of different agencies, and no arrangements existed to feed the information to a central location. [8] At other times information was deliberately withheld by a department or Ministry because of institutional rivalries. The Central Bank may withhold information on private sector borrowings on confidentiality grounds although there should be no reason for withholding the aggregate figures on the stock of debt and debt service payments.

There may also be divided responsibilities by type of external borrowing.

For instance the Central Bank may be in charge of all International Monetary Fund (IMF) loans and private borrowing, the MOF for multilateral and bilateral loans and the PC for grants. Within any one of these institutions, there could also be several divisions or departments involved with different categories of loans.

In Tanzania such divisions are not uncommon, for instance in preparing the Government Budget the MOF provide the Recurrent part of the Budget whereas the PC provides the Development part.

Worth noting here is a fact that such diversity of institutional arrangements doesn't make it easy for centrally located DMU; if it was not given sufficient powers, status and authority to discharge its functions, particularly to enforce the reporting requirements and to implement debt policies.

4. Reversing Debt Accumulation

The central focus on effective debt management could be viewed as the search for feasibility of reversing external debt accumulation. Policy makers should be convinced by professional debt managers that reversal of external debt accumulation was not a utopia.

Total amount of loans contracted during the January - June 1995 period was USD 36.7 million, of which USD 29.8 million was in respect of the Central Government, and USD 6.9 million was contracted by the private sector. Compared to total amount of USD 245.4 million contracted during 1994, the amount of loans contracted during the 1st half of 1995 was indicative of "forced" downward trend in external borrowing by the Country.[(9)] This was largely on account of outcome of Tanzania's general elections planned for 22nd and 29th October, 1995 for Zanzibar and the United Republic respectively. One official in the DMU indicated that an agreement with the IMF had been long overdue.[(10)]

Table 1.0 provides an analysis of loans contracted in 1994 and 1st quarter of 1995. The total amount is about 270.3 millions of USD. This was 52% of the country's exports earnings (USD 519.36) in 1994. It was a borrowing of an equivalent of 74% of the country's mainland GDP in 1994 (TShs. 1,823 billion at 1976 prices converted at Tshs.500/$). The question raised here is need for borrowing limits. These figures and percentage represent a suppressed demand for loans, not necessarily the economically viable loans; otherwise the percentages would have been higher.

The other issue is one about utilization of loans. The ideal would be to synchronise use of debt and ability of the recipient sector to generate income enough to pay back. Basic principles in project appraisal demand that a project is worthwhile funding if and only if it can generate a positive net discounted cash flow. The principle can be extended to social cost benefit analysis of public project such as the Installation of Telecommunication Equipment, Pemba airport Rehabilitation, Importation of Generators, Settlement of a TANESCO loan, TDFL office construction, and soap manufacturing industries.

ABBREVIATIONS

GOBE	Government of Belgium
GOTZ	Government of Tanzania
GOSA	Government of Saudi Arabia
IDA	International Development Association (of World Bank)
EADB	East African Development Bank
CDC	Commonwealth Development Co-operation
GOCN	Government of China
COGE	Government of Germany
KUWF	Kuwait Fund for Arab Economic Development
COGE	Cogefar - Imprest Germany co-construction civil
MONA	Mona Bengtsoon Denmark
SUMA	Sumati A. Patel India
MEIL	Mara Estate & Industries Ltd.
KIMA	Kimandulu Farm Services (Arusha)
TAWA	Tanzania Wattle
LFFL	Lake Farm Fishing
NVNI	N.V. Nederlands Inkoopecntum
KIPA	Kibo Paper Industries
CAMB	Cambi Tanzania Ltd (Dar)
MURZ	Murzal Oil Mills Ltd (Dar)
NTCO	Nuglobe Trading Col. Ltd.
IFU	Industrialization Fund for Developing Countries
RSPT	R.S. Pedersen Transport Ltd.
AMTA	Amtac International
LAKH	Lakhani Industries Ltd.
CHAT	Charter Express International Ltd.
SHIV	Shivji & Sons Ltd.

Table 1.0

ANALYSIS OF LOANS CONTRACTED IN 1994 AND 1995 (USD)

1994	Creditor	Borrower	Purpose	Sector	Amount	Maturity	G/Period	I/Rate	Eff/I rate	G/Element	
IST QUARTER											
	GOBE	GOTZ	Installation Telecomm Equipment	Telecom	3626790.00	30.90	11.90	0.00	0.00	84.87	Bilateral
	SUMA	MELL	Sugar Production Period	Manufacturing	15000.00	5.10	1.10	0.00	0.00	24.87	Commercial
	AMIF	CMB	Construction of Cargo handling	Transport	1500000.00	6.90	2.00	8.00	7.30	9.15	Commercial
	NORS	LFFL	Fishing processing facilities	Fsihing	2519860.00	5.50	3.50	9.00	7.80	7.90	Commercial
	EADB	MURZ	Machine & plant processing of oil	Energy	976982.93	6.30	2.80	12.00	11.82	6.26	Commercial
	CDC	TAWA	Power Supply	Energy	3555614.71	13.50	4.00	9.70	9.74	1.41	Commercial
				Sub Total	**17893499.62**						
2ND QUARTER											
	IDA	GOTZ	Intergrated road Project	Transport	178939107.20	39.70	10.20	0.75	0.75	82.89	Multilateral
	GOSA	GOTZ	Pemba Airport Rehabilitation	Transport	1996338.48	15.40	3.90	4.00	4.04	34.10	Bilateral
	NORS	MASH	Game Fishing Resort	Fishing	39552558.11	5.30	3.30	8.50	8.50	7.03	Commercial
	EADB	KIPA	Kibo Paper Rehabilitation	Manufacturing	3017156.70	7.60	1.10	12.00	14.51	14.20	Commercial
	EADB	KIPA	Kibo Paper Rehabilitation	Manufacturing	202181.39	7.60	1.10	25.00	26.26	51.10	Commercial
				Sub Total	**188107341.91**						
3RD QUARTER											
	COGE	GOTZ	Settlement of Tanesco Loan	Energy	9000000.00	5.60	0.10	4.25	0.00	12.45	Bilateral
	IDA	GOTZ	Mineral Sector reform	Mining	13049535.36	39.70	10.20	0.75	0.00	82.92	Multilateral
	GOCN	GOTZ	Economic & Tech. Cooperation	Services	8440234.18	19.10	10.10	0.50	0.75	74.08	Bilateral
	WITH	AMEL	Financing Insurance	Services	96484.98	5.40	1.60	7.00	7.19	7.52	Commercial
	AMTA	LAKH	Manufacturing industries Finance	Manufacturing	840400.00	6.90	3.40	9.50	8.71	3.27	Commercial
	CHAT	SHV	Soap Manufacturing Industries	Manufacturing	1485000.00	6.50	3.00	9.00	8.75	2.79	Commercial
				Sub Total	**32911654.52**						
4TH QUARTER											
	FMO	MASH	Finance & Management	Services	137481.22	5.10	3.60	8.00	0.00	33.99	Commercial
	CINC	EMCO	Importation of Generators	Energy	84760.32	5.10	2.30	8.00	7.79	3.18	Commercial
	FMO	SERO	Study Financing	Services	13175.28	1.20	1.20	0.00	0.00	10.50	Commercial
	IFU	RSPT	Financing EST Operations	Fishing	32613.77	5.20	5.20	8.00	8.12	7.24	Commercial
	DEG	TDFL	Office Construction	Construction	1288240.81	9.50	3.00	9.90	10.26	1.12	Commercial
				Sub Total	**1556271.40**						
1995 1st QUARTER											
	GOBE	GOTZ	Purchasing of Telecomm Eqpmt	Telecomm	1659517.24	29.90	10.90	0	0.00	83.48	Bilateral
	KUMF	GOTZ	Somanga road Project	Transport	28157339.25	23.80	4.80	2	3.02	48.14	Multilateral
				Sub Total	**29816856.49**						
				Grand Total	**270285623.94**						

NB: A loan is said to be concessional if Grant Element is 25% or above.

Bilateral: Government - Government

Multilateral: IBRD, IDA - Government

Commercial: Banks - Govt., Private Sector

NORS	Norsad Fund Agency
MASH	Mashudo Lodge Ltd.
TDFL	Tanganyika Development Finance Co. Ltd.
CINC	Clinfton International
EMCO	Emco Industries Ltd.
SERO	Sero Enterprise Initiative
WITH	Williamson tea Holding
AMEL	Ambanguru Estates Ltd.
FMO	Netherlands Financierungs Maatsch
DEG	Deutsche Finanzierungsgesell Schaft
AMIF	Amifin Holding S.A.

Source: BOT - Debt Management Unit; July, 1995

A public project whose net discounted cash flow is negative should be denied the scarce loan funding. That means, priority be assigned to the "generators" of cash inflows. The largest loan during the period went to an Intergrated Road Project utilizing about 60% of all funds made available toTanzania. Such large expenditure would be justified if and only if roads were actually constructed and proper scheduled maintenance undertaken. The second largest expenditure was on Mashudo Game Fishing Resort funded by Norsad Fund Agency.

Agricultural production per se did not receive any funds during the period. Loans to agro-processing industries were US $ 15,000 which went to Mara Estate and Industries Ltd. for Sugar production funded by Sumati A. Patel India; and US $ 2,519,860 for fish processing facilities to Lake Farm Fishing, again funded by Norsad Fund Agency.

There are scholars who hold the view that debt accumulation and hence the debt crisis was systems "related". It was a problem of the international banking system and probably could not have arisen if loans had been raised by the issue of bonds rather than through the raising of bank loans.(11) In financial parlance, the liquidity school of thought argue that the debt crisis was a temporary shortage of foreign funds with which to sesvice international debts. This was a sanguine stream that ignored the risk of sovereign default.(12) They argue primarily for enhanced public funding of Severely Indebted Low Income Countries (SILICS). In context of this view, at a joint annual meeting (1994) of the IMF and World Bank it was proposed that:

(1) Multilateral debt be reduced using the profit of the Bank and IDA in favour of SILICS.

(2) IMF sell part of the Fund's gold reserves and use the proceeds to finance multilateral debt reduction of debt - distressed developing Countries (include SILICS).

The other school of thought hold that the real issue was long-term solvency. The answer therefore lay in long-term economic growth prospects. That bring forward the debate on industrialization strategy. The understanding achieved with the so called Non-Aligned Countries fall under this category.[13] Kenen (1983) pursues this line. He once proposed the setting up of an international organization that could sell bonds guaranteed by the member countries, mainly the industrial nations.[14]

The exchange rate or monetary system role school held that the flexible exchange rate system had brought to an end money's role as a predictable measure of value. As a result, proper valuation of long-term trade and contract had been undermined because it depended so much on the stability of currency exchange rates. Mundell (1993) therefore argues that lack of a stable unit of international value meant that monetary discipline was negligible and debtors were encouraged to borrow.[15]

Hogan and Pearce (1982)[16] have argued that lack of monetary discipline has meant that for years together, the same group of countries has been able to run current account deficits and accumulate debts while surplus countries were also not disciplined - either by an effective IMF or by an automatic adjustment mechanism. Instead, they preferred to place surplus funds with the international banking system, whose loans were being made to countries of deteriorating credit-worthiness.

Debt accumulation can be explained partly by what Cline (1984) called "Lender's Trap".[17] The Trap answers the question why international banks continue to make loans to the less developed countries on a wide scale, whose debt service obligations reached levels which obviously threatened their credit-worthiness.

Once having made loans to a client state, banks can become locked in even if there is a threat that the client cannot service the debt. For banks the choice is stack: either lend more money so that the service payments on the old loans can be made or, declare the borrower to be insolvent to write off the loan.

New lending will be the chosen alternative so long as the expected benefit from doing so exceeds the expected cost.

Following Cline (1984) the expected benefit of new lending is:-

$$E(B) = (Po - P1).\ D \qquad (1)$$

Where
Po = Probability of default before the new loan is made
P1 = Probability of default after the new loan is made
D = Outstanding debt prior to the new loan.

The expected cost of new lending is:

$$E(C) = p1.L \qquad (2)$$

Where L is the dollar value of the new loan.

Net benefit of the new loan expressed as a percentage of outstanding debt is;

$$N(B) = E(B) - E(C) = Po - P1\ [1 + {}^{L}/_{D}]\ .\ 100 \qquad (3)$$

Hence, whether to make new loan depends upon the "before' and "after" probability of default and the size of the new loan relative to debt outstanding. A bank will make a loan in circumstances where Po is high and $^{L}/_{D}$ is small but the new loan is expected to bring about a marked reduction in the probability of default.

For example, it was the world's largest debtor, Mexico, which precipitated the debt crisis by suspending debt service in mid - 1982, yet the banking community rushed in with new loans. This was not surprising. Cline assessed that at the time in Mexico's case Po was "substantial' while P1 was low and the required new loans amounted to only 7 percent of outstanding debt.

The foregoing insight may prove useful in understanding the nature of debt accumulation and particularly in the search for feasibility of reversing the process to sustainable levels of debt commensurate with capacity to borrow, for which export earnings provide a proxy. Table 2.0 shows Tanzania' official credit under the multilateral and bilateral categories.

In 1970 Tanzania's external debt was USD 175m. but increased to USD 6354m. in 1993 representing an increase of over 3000 per cent.

The average was an annual increase in official debt at 147%. Exports receipts in the respective time period (in US $ millions) were:

1970	1980	1986	1987	1988	1989	1990	1991	1992	1993
322	695	473	526	542	622	609	601	658	617

These exports receipts as can be seen were unstable. Inspite the instability, the receipts grew from US $ 617 million in 1993.(18) The increase was 92%. This can be adopted as a proxy for debt repayment capacity. It, could also serve as an indicator of a country's borrowing capacity. Therefore, using this general yardstick the country over borrowed. The argument is that if the capacity to repay grew by 92% external borrowing could have grown up at most to the same extent. In relative terms Tanzania over borrowed by thirty eight times over and above its growth in capacity to repay. Such is the pandemonium.(19)

From Table 2.0 figures, one discerns a pattern. For the years covered concessional debt was larger than non-concessional. Within the same time range, bilateral debt was greater that multilateral. The pattern was due to the fact that concessional debt conditions were less stringent and the fact that the central government relied more on negotiating government to government loans for better terms.

Prospects for reversing debt accumulation largely hinge upon effective debt management. The ultimate purpose is that debt management should not constrain economic development.

5. Debt Management for Economic Development

External Debt Management is an integral part of macro-economic management for a country like Tanzania that relies on external borrowing for economic development. Developing countries resort to external borrowings to fill the gap between domestic savings and investment and between the export and import of goods and services.

Since settlement of external debt draws down, the country's foreign reserves, it is prudent that Tanzania's external behaviour requires a closer watch. Foreign reserves constitute an important variable to economies of all countries, more so to developing ones, and particularly the debt - ridden. Foreign reserves provide an indispensable input in economic development mainly in financing the acquisition of machinery, plant and equipment for use in the industrialization process. Without such inputs on a continous basis economic development and capacity to repay loans would be constrained. The panacea lies party in effective debt management.

External borrowing, and direct investment act as supplements to export earnings to enable higher expenditures than would otherwise be impos-

Table 2.0 OFFICIAL CREDIT

(IN MILLIONS OF US$)

	1970	1980	1986	1987	1988	1989	1990	1991	1992	1993
1. Multilateral Concessional	32(20)	344(16.2)	904(22.7)	1064(22.7)	1173(2.4)	1276(25.6)	1583(27.3)	1816(30.3)	2027(32.7)	202(34.6)
2. Multilateral Nonconcessional	3(1.7)	194(9.2)	309(7.8)	349(7.5)	300(6.1)	275(5.5)	274(4.7)	244(4.1)	207(3.3)	176(2.8)
3. Bilateral Concessional	129(73.7)	1429(67.5)	1758(44.2)	2083(44.5)	2176(44.6)	2135(42.9)	2314(40.0)	2348(39.1)	2538(41)	2720(42.8)
4. Bilateral Non concessional	8(4.6)	150(7.1)	1006(25.3)	1187(25.3)	1232(25.2)	1293(26)	1622(29.0)	1590(26.5)	1419(23)	1256(19.8)
TOTAL	175(100)	2117(100)	3977(100)	4683(100)	4881(100)	4979(100)	5794(100)	5998(100)	6191(100)	6354(100)

SOURCE: Extract from, World Bank - World Debt Tables 1994-95 P.467, and own computation.

Notes: Figures in brackets are percentage composition of respective components.

sible. There is a need, therefore, to ensure that these borrowings are sustainable and the country is able to build capacity to service the debt without interruption.

Kumar (1992) argued that debt management was an important component of balance of payments policy.[20] Debt management covers policy aspects such as the sources of financing, thc choice of debt instruments, the amount to be borrowed and currency composition and the terms of debt service. It also concerns debt strategy aspects such as the restructuring of the existing stock of debt, including rescheduling and refinancing and ways of minimising true risk of exposure.[21]

It was quite enlightening that officially Tanzania acknowledges that debt rescheduling may be a great relief to the country's debt service burden, but it cannot be a panacea for the debt problem.[22]

An efficient external debt management system calls for co-ordinating activities so that the macro and micro levels in the country are synchronized in context of a well thought out borrowing strategy, consistent with the development objectives, monetary, fiscal, and balance of payments policies. The responsibilities involve the allocation of available external funds among the various borrowers in the government, parastatal, and private sectors for new investment which generate foreign exchange earnings or savings to enable debt service payments to be sustained without constraining long-term growth prospects of the country. Such a dynamic balancing is possible given a pragmatic industrialization strategy.

A survey of sectoral allocation of long-term debt provide evidence that the Agriculture sector received 9% of the borrowed funds in 1991, 6% in 1992, 8% in 1993, and 11% in 1994 (See Table 3.0). This is contrary to the status of Agriculture as a sector that contributed 75% in the country's export earnings. In analogy, this anomaly in policy choice amounts to milking a cow without giving it adequate nutritional feed. The sector definitely requires further investments in a balanced industrialization process.

Equally important an efficient debt management systems requires a grasp of attitudes among the lender community (See Annex I and II). A causal look at the variance between the budgeted external finance from the lender community against actual disbursement reveals that in no one instance was the budgeted exactly equal to actual in 1992/93 and 1993/94. Countries and institutions that registered the least unfavourable variance in 1992/93 were the World Bank, Japan, and Sweden with only the Netherlands exceeding budget. As for 1993/94 The Netherlands, Norway, and Canada registered the least unfavourable variance.

In that fiscal year; the African Development Bank (ADB), The World Bank and Denmark did exceed the budgeted amount. These cases illustrate one thing in common; the budgeting process results in either an overestimate or underestimate of External Finance from the lender community.

It is worth noting that many lenders have not been able to attain the 0.7% of their GNP target for Official Development Assistance (ODA) as expected by the OECD. The trend in future is uncertain.

Choice of debt structure remain an important consideration. As Mjema correctly observed, up to 1976 the structure of external debt in Tanzania did not include short term debt. It is contended that short term debt came in 1977 via adoption of World Bank (IBRD) sponsored import liberalization.(23) Lipumba and Noni (24) argue that import liberatilization made access to suppliers credit easy and ushered in an epoch in Tanzania where short term debt started to accumulate. In 1985, for example, short-term debt accounted for nearly 20 percent of the country's total debt.

Mjema raises another dimension of the debt accumulation problem. Between 1986-1992 the build up in both long and short term debt coincided with signing an agreement, with the International Monetary Fund (IMF). The agreement gave Tanzania access to IMF credit facilities and its conditionalities.

Impact evaluation of the Economic Recovery Programme I & II 1986 - 92 yield different accounts. The optimistic account is that the programme succeeded in reducing inflation from 30 to 20 percent. The pessimistic side submit that poor sections of Society have been made poorer. (25) The impact of loans from international financial institutions such as the IMF on economic development in Tanzania 1986-92 is debatable..

Kapalatu (1995) for instance holds that the ERP (I&II) was the most successful of Tanzania's adjustment endeavours since the programme was able to mobilize additional external resources, making it possible to raise import levels and thus recover positive GDP growth rates. (26)

Table 3.0 SECTORAL ALLOCATION OF DISBURSEMENTS ON LONGTERM DEBT (TSHS.000)

Economic Sector	Sector	1991	1992	1993	1994	1995	Total
Educ. & Training	E&T	65,400	0	40,400	203,600		309,400
Maritime Transport	MT	218,000	325,600				543,600
Housing & Urban Dev	H&U		118,400	40,400	457,200		61,600
Mining	Min				254,500	238,000	792,500
Forestry	For	87,200	296,000	242,400	1,527,000	699,400	2,852,000
Relecommunications	Tel	741,200	59,200	404,000	1,883,300		3,087,700
Other	Oth		710,400		4,173,800		4,884,200
Ground Transport	GT	4,272,800	4,351,200	1,656,400	4,886,400	1,076,000	16,242,800
Agriculture	Agr	3,684,200	4,528,800	5,696,400	5,242,700	591,800	19,743,900
Energy	Ener	3,815,000	19,861,600	2,020,000	1,221,600		26,918,200
Industrial Dev.	ID	14,627,800	7,873,600	3,110,800	50,900		25,663,100
BOP	BOP		15,392,000	20,482,800	0		35,874,800
General	Gen	11,183,400	14,326,400	29,976,800	29,267,500		84,807,900
Total		**38,695,000**	**67,670;400**	**63,670,400**	**49,168,500**		**222,336,100**

Source: BOT

The claim that stablization and adjustment programmes in Tanzania have had a detrimental impact on the poor was challenged by critics such as Sarris and Tinios (1993).[27] comparisons between 1976/77 and 1991 based on nationally based household surveys suggested improvements in both absolute as well as relative terms.

It was not possible to assess whether the improvements had all occurred in the post adjustment period, or whether they were due to adjustment policies. Nonetheless, given the universally acknowledged pre-1984 crisis it was rather unlikely that real household incomes could have improved by much between 1976/77 and 1984.

Thus it appeared that the post-1984 period in Tanzania had been marked by an overall substantial improvement in both absolute as well as relative real incomes.

In a very daring intellectual exercise Sarris (1993) designed a new dynamic macro-micro general equilibrium mode for Tanzania. The model was explicitly designed to trace the links from macro-policies to household activities. Concerning the impact on household welfare of Tanzania's macro-policies during the late seventies, and early eighties and the adjustment period of the mid to late nineteen eighties; the tentative conclusion was that poor groups appeared to be less sensitive to macro-policies compared to upper income groups.[28] By extension one may argue that poor groups were not sensitive as to whether external debt (official) per capita was $ 206 greater than a GNP per capita of $ 110 in 1992[29] or vice versa. After all, what mattered to the average poor household was its daily bread.

The evolution of rescheduling terms indicate short term relief, which did not reverse the debt accumulation process. Repayment terms were determined on a case-by-case basis until September 1987, at which date the Venice terms for the poorest Sub-Saharan African countries were adopted.[30] Subsequently, the Venice terms were replaced in 1988 by the Toronto terms for low-income countries. The process of categorization of debtor countries continued with the adoption in 1990 of the Houston terms in favour of middle-income countries. Enhanced Toronto terms were adopted in December, 1991, replacing the Toronto terms. In December, 1994 Naples terms superseded the Enhanced Toronto Terms[31]. Enhanced Naples terms were worked out in 1995.

Despite the evolution of favourable rescheduling terms in favour of a SILIC like Tanzania, Total External Debt committed and outstanding grew to USD 6919.5 million as at 30th June, 1995.(32)

The trend continued to show that bonds were not used as Instruments of debt finance, and more important private sector access to resources from the International system was limited.(33)

One significant demerit of the latest Naples terms was its confinement to bilateral debt reduction only. The problem of multilateral debt was not considered, though for many debt-distressed countries the servicing of multilateral debt has become the bulk of debt service payments.(34) The irony was that multilateral creditors were considered as "preferred creditors" and so at present rescheduling or reduction of multilateral debt is viewed as remote. The price of servicing multilateral debt is actually the accumulation of large arrears on bilateral debt.

In reference to Table 2.0 one can see that Tanzania stands to benefit a lot by the Naples terms if she maintained a satisfactory track level with IMF and Paris Club Creditors, since over a half of the debt is bilateral.(35)

When such a strategy is combined with the current move towards some "international" consensus on the need for a comprehensive approach to debt reorganization a debt reduction could be applied to all three major classes of creditors viz: bilateral official creditors private sector lenders, and multilateral creditor.(36) The advent of the 50th anniversary of the UN system could probably attract acceptability of what Tutu (1995) called a jubilee principle of forgiveness including debt forgiveness, so that low income countries are allowed, a new beginning.(37) Tutu's ideas are in rhythm with the 1991 Abidjan Declaration on debt relief, recovery and democracy in Africa. (38)

In the final analysis the probability for reversing the debt accumulation process lies mainly in attempts to decrease the share of external debt incurred by the central government and at the same time trying to widen private sector access to financing resources available from the international financial system. Effective Debt Management would include search of feasibility for alternative debt instruments such as bonds. These may be considered as the short-term measures. In the long run economic development apart from hinging on effective debt management will remain a function of appropriate policy choices in the industrialization path. (39)

6. Conclusion and Policy Recommendation

Tanzania's external debt has grown unchecked since mid 1970s. In order to ensure that debt management does not constrain economic development, it is high time external debt accumulations were reversed.

An intergrated interdisciplinary approach would provide the necessary guidance in loan procurement, utilization monitoring and effecting debt service payments selectively. Economic analysis would aim at avoiding or at least minimize risk; financial analysis would attempt to spread risks; and legal analysis, try to allocate risks among parties to the contract. One important overall economic condition was to set ceilings on external borrows depending on capacity to repay. Policy makers need to pay heed that policies of managing existing debt and/borrowing fresh money need professional advice and orientation of various kinds, reflecting the interdisciplinarity of debt management.

In order to operationalize effective debt management some indispensable ingredients were:

(i) Central location for all information on external borrowings, contributing to a sound data base; such locus be given sufficient powers, status and authority to enforce reporting requirements and to implement debt policies.

(ii) A clearly laid out institutional arrangement for loans procurement, monitoring their utilization, and making debt service payment selectively.

(iii) Closer co-operation and co-ordination among the various agencies particularly the Ministry of Finance (The Treasury), the Planning Commission, and the Central Bank through the Debt Co-ordination and Debt Management committee, and

(iv) Search for feasibility of reversing the debt accumulation process in the context of debt management for economic development; one feasible area being widening of private sector access to resources from the international financial system; and use of bonds as an instrument of debt finance.

Areas for further research however, include (1) data inflow systems to the centralized locus for all information on external borrowings to timely capture public and private sector transactions with bearings on external debt. (2) Country based comparative study in effective external debt management.

END NOTES:

1. "UNITAR (1993)" p. 33
2. Ibid p. 33
3. Mwandenga A,M. (1995) p. 31
4. Views of AMACS project Team Leader
5. Kumar (1992) p.191
6. Kumar Ibid p.188

6b. **DCC'S functions are, inter alia (see BOT, Jan. 1995)**

(i) Carry out debt management by building up and maintaining a portfolio of debt that is optimal in terms of Tanzania's economic and financial situation and one that could respond to changing economic and market conditions.

(ii) Establish and monitor the relevant debt indicators and other debt related performance criteria in order to ensure that current and future debt service obligations do not become unsustainable.

(iii) Determine the annual level of new borrowings that are sustainable and also advise on the extent to which these borrowings should be raised from external sources.

(iv) Establish guidelines for contracting and monitoring of short, medium and long-term loans, including laying down the terms within which parastatals and private sector borrowings should be effected.

(v) Determine the sources for external borrowings having regard to the nature of the programme/projects to be taken up for implementation, the terms at which loans are offered by different creditors, timing and the composition of the existing portfolio.

(vi) Establish criteria for providing government guarantee to parastatal and private sector.

(vii) Establish the terms on which external loans should be lent to parastatals and other agencies, monitor governments contingent liability on this account.

(viii) Institute and review from time to time, the appropriate legal and institutional arrangements for efficiently monitoring the contracting, utilization and servicing of debt and proposed changes whenever necessary.

(ix) Institute appropriate legislations and administrative procedures necessary to organize and maintain the flow of information and loans.

7. **Functions of the DMC are:**

(i) A detailed report of loans contracted during the previous period i.e. month, quarter.

(ii) A detailed review of the status of debt and grant data compilation in the MOF and BOT and the identification of bottlenecks.

(iii) Schedule of debt service payments including the arrears situation during the following month circulated earlier by the EDD (External Debt Department) and comments thereon.

(iv) Arrears requiring reconciliation in respect of foreign currency payments by the EPD and the Medium Term Foreign Liabilities Account at the BOT.

(v) Evaluation of projected and actual disbursements from external agencies during the preceding month and the forecast during the following month.

(vi) Review of Balance of Payments aspects relating to external debt including variances if any between anticipated and actual trade and financial flows during the preceding month and any other aspect of the BOT on which data became available during the month.

(vii) Review of debt reports disseminated by the EDD during the month and additional data requirements.

(viii) Receipt by EDD of disbursement notices and payment claims of external agencies from the MOF during the month.

8. The views were confirmed in an interview with BOT officers in the Debt Management Unit, 14th July, 1995.

9. BOT (1995) p. 12

10. Interview with Officers of BOT, DMU, 14th July, 1995

11. Hallwood, P and MacDonald, R. (1986) p. 223

12. Ibid pp. 236 - 38

13. Ministerial meeting of Non-Aligned Countries on Debt and Development sharing of experiences 13 - 15 August, 1994, Jakarta, Indonesia.

14. Kenen P. B (1983) Quoted in "Foreign Debt Difficulties-Prompt Proposals for Drastic Restructuring" the Wall Street Journal, 8 February

15. Mundell, R.A. (1983)

16. Hogan, W.P. and Pearce, I.F. (1982)

17. Cline W.R. (1984)

18. See World Bank p. 466

19. Between 1970 and 1993 official debt increased by 3531%, against increase in export earnings by 92%; where export earnings are taken as a general proxy for debt repayment capacity. Thence: $\frac{3531}{92}=38.38$

20. Raj Kumar (1992)

21. Ibid In addition Holsen (1987) suggests that one rule to reduce risk and uncertainty is to diversify the maturities and currency composition of external debt

22. BOT "Tanzania Debt Portfolio Review - 1986 to 1993" January 1995 p. 11

23. Mjema, G.D. (1995), p. 44

24. Lipumba and Noni (1993) pp 6-8

25. Mjema, G.D. op. cit pp 45 - 46

26. Kapalatu S.S. (1995) PP. 104 - 105

27. Sarris A.H. and P. Tinious (1993) p. 25

28. Sarris A.H. (1993), p.56

29. (i) External debt per capita is derived from

US$ 6191m (Tbl 2.0) = US$ 206
30m (Estmtd.Pltn)

(ii) The GNP per capita is as reported in World Debt Tables 1994 - 95

30. UNCTAD (1995)

31. The Naples Terms:
   - Apply to severely indebted low Income countries.
   - Percentage of debt reduction can be increased to 67% for countries meeting either a poverty criteria (GDP per capital < 500 U $) or a criteria of high indebtedness (prevent value of debt to exports ration > 35%.
   - Given satisfactory track level with IMF and Paris Club creditors, Debtor viewed by creditors as having the ability to implement the debt agreement, and that there is a creditors consensus on a concessional option. Note: By mid -June 1995 nine low-income countries (Bolivia, Cambodia, Guinea, Guinea-Bissau, Haiti, Nicaragua, Senegal, Togo and Uganda) had rescheduled their debt under Naptes terms. Only Uganda received a 67% reduction of the stock of its eligible debt qualifying for exit rescheduling.

32. BOT "Economic Bulletin - Quarter Ended 30th June, 1995" Vol. XXIV No. 2. p. 12

33. Ibid Structure of Disbursed Outstanding Debt by borrower category. Central Government 91.9% Public Corporations 6.0% Private Sector 2.1%

34. South Centre (1994) "South Letter" Autumn/Winter No. 21 pp 1-4

35. UNCTAD secretariat undertook a simulation showing impact of the Naples terms on SILICS's projected debt service ratios resulting from a 67% reduction of debt stock for non-concessional pre-cut off date

debt (with the remainder rescheduled at market rates over 23 years, including 6 years of grace), pre-cut off date ODA debt being rescheduled over 40 years (including 16 years of grace), it was established that the debt service burden would be reduced significantly.

36. op cit pp 2 - 4

37. BBC 'Focus on Africa programme' 24th October, 1995 Tutu suggested a 6 month moratorium and two conditions for debt forgiveness; democracy reforms and a good human rights record

38. South Commission (1991): The Declaration spelt that in order to facilitate prospects for returning to a trajectory of sustainable long-term development, Africa's debt service payments must be reduced dramatically.

39. See Mwandenga A.M. op. cit p. 36

Annex I

LONG TERM DEBT COMMITMENT AND DISBURSEMNT											
US $million		1991	1991	1992	1992	1993	1993	1994	1994	1995	1995
Aid Group	Donor	Commitm	Disbursem	Commitm	Disbursem	Commitm	Disbursem	Disbursem	Commitm	Commitm	Disbursem
Afrifan Development Fund	ADF			13.2	0						
Austria	Aus			11.7	11.7						
Belgium	Bel			40.1	0	42.7					
Switzerland	Swi			0.2	0.2						
Italy	Ita			11.5	11.5						
Japan	Jap			0.3	0.3			0	0		
United Kingdom	UK			12.8	12.8						
IDA	IDA							184.1	0.3	0	1
TOTAL	AG	0	0	89.8	36.5	0	42.7	184.1	0.3	0	1
		1991	1991	1992	1992	1993	1993	1994	1994	1995	1995
Non - Aid Group	Donor	Commitm	Disbursem	Commitm	Disbursem	Commtim	Disbursem	Commitm	Disbursem	Commitm	Disbursem
Africa Development Fund	ADF	76.9	22.4	132.8	0	51.9	0		0.2		
Bayano Investement Ltd	BIL					0.7	0.9	1.2	0.1		
Brown Shipley & Co. Ltd.			1								
Commonwealth Dev. Group	CDC	4.8					0.3		2.4		
Deutsche Finanzierung	DFG	1.9			0.5		0.3				
Dolphin Maritim Greece	DMG			2	2						
European Investm. Bank	EIB	9.2			2.1				0.5		
Finnish Fun for Ind. Dev.	FFI		0.1	4	0.1	0					
Belgium	Bel	2.9	2.8	3.4				3.3	3.5		
China	PRC			9.7							
Italy	Ita	28.9	7.2	9.3	69.5		3.8		0.2		
Saudi Arabia	Saud		1.3		1.4		0.7		5.5		
IDA	IDA	331.1	116.3	52.7	79.7	273.4	78.5		55.9		3
IFAD	IFAD				0.7	12.4	3.3		4.3		1
IFC	IFC	2.4			1.2		0.2				
Kuwait Fund for AED	KFA				2.7	13.9	0		1.1		
OPEC Fund for Int. Dev.	OPEC	11.3	6.2	1	5.1		2.1		12.3		
SGS Holdings SA	SGS			0.3	0.3						
Total	NAG	469.4	157.3	215.2	165.3	352.3	90.1	4.5	86		4
Grand Total	All	469.4	157.3	305	201.8	352.3	132.8	188.6	86.3		5

Source: BOT

Annex II

EXTENRAL FINANCE BUDGET/ACTUAL EXPENDITURE 92/93 AND 93/94 (TSHS. millions)

DONOR/LENDEF	B-92/93	A-92/93	%	B-93/94	A-93/94	%	B92-A92-B	A93-93
CANADA	3,994.60	864.00	21.64	1,190.30	660.99	55.53	1,929.97	2,570.06
DENMARK	20,509.00	4,840.10	23.60	11,137.00	13,707.06	123.08	4,451.00	
FINNLAND	7,673.40	267.20	3.48	3,162.00	305.30	9.66	4,244.20	
SAUDI FUND	0.00	540.28						
SWEDEN	16,662.20	7,666.10	46.01	21,059.60	41,147.48	19.69		
IRELAND	0.00			948.10	1.60	0.17		
NORWAY	16,360.30	3,371.78	23.12	12,270.50	10,318.72	84.09	308.02	
FRG	13,834.80	1,707.83	12.34	6,066.40	1,842.47	30.37	6,060.57	
USA	8,284.50	420.28	5.07	3,612.50		0.00	4,251.72	
TURKEY								
BELGIUM	4,659.90	415.43	8.91	922.30	42.02	4.56	3,322.17	
JAPAN	4,063.50	2,176.62	53.57	3,570.00	420.20	11.77		
UNITED KINGDO	5,992.60	1,195.41	19.95	1,289.40	408.27	31.66	3,507.79	
ITALY	11,277.00	276.21	2.45	0.00	36.10		11,000.79	
THE NETHERLA	1,512.00	3,794.93	250.90	4,207.50	3,617.87	85.99		
IRAN	0.00	25.70		0.00				
WORLD BANK	26,460.00	16,817.79	63.56	11,687.50	26,015.59	222.59		14,328.09
EEC/EIB/EDF	29,747.00	12,537.27	42.15	18,712.32	24,712.32	134.20		6,297.52
ADB	5,197.50	2,359.90	45.40	2,279.10	5,496.51	241.17		3,217.41
UN-FAO	0.00	0.00		0.00	767.62			
UNDP	3,150.00	594.95	18.89	2,337.50	5.70	0.24	217.55	
UNICEF	5,827.50	149.48	2.57	3,081.20	143.32	4.65	2,596.82	
KUWAIT	0.00			0.00				
OPEC	0.00							
IFAD	9,212.60	62.81	0.68		24.45	1.61	7,633.99	
BADEA								
EADB								
ILO								
NNB					0.10			
UNCDF								
TFFC/FAO	0.00	29.17						
UNFPA		9.88						
UNHCR					15.22			
UNIDO								
UNESCO								
WFP								
WHO								
UNCHS		18.05						
SWITZERLAND	0.00	0.00		0.00	67.06			
	2,595.20	758.58	29.23	2,283.50	255.91			
TOTAL	0.00	0.00		0.00	405.26			
	197,014.10	61,310.08	31.12	111,035.00	17.14	83.86	24,669.02	26,413.08
KEY: B: BUDGETED								
A: ACTUAL								

Source: Bank of Tanzania, External Finance Budget 1993/94

Key: B: Budget

A: Actual

Tanzania: Key macro-economic indicators (percentage, unless otherwise mentioned)

Annex III

	1987/88	87/88	88/89	89/90	90/91	92/93	93/94	93/94	94/95	95/96	96/97
							Prov..........Projections.....				
GDP growth rate	4.7	5.1	3.5	3.2	3.7	4.2	4.8	5	5	5	5
GDY growth rae	4.3	4.3	2.5	2	3.8	2	4.6	5.4	5.1	5.1	5.1
GDY per Capita	1.3	1.7	-0.3	-0.9	0.7	0.2	1.8	2.5	2.2	2.2	2.3
Growth rate											
Consumption per											
Capita growth rate	0	15.3	0.8	2.1	0.5	0.7	0.7	0.5	0.5	0.7	0.7
Debt Service US $	129.5	127	122	133.5	140	361.4	523.7	509	481.2	467.4	446.3
Debt Sevice/Exports (G&S)	14.6	13.2	12.7	13.5	14.9	35.1	47.2	42.5	36.9	33.2	29.2
Debt Service/GDP 1	3.4	3.7	3.9	5.1	4.7	13.2	21.2	19.5	16.1	13.6	11.7
Gross Domestic Investment/GDP	25.9	30.8	26.8	27.7	21.8	30.2	29.4	29.3	27.7	26.9	25.7
Gross Domestic Saving/GDP	3.8	3.1	-5.5	-12.4	-13.6	-11.8	-19.8	18.5	15.6	-12.5	-10.8
Gross Domestic Savings/GDP adjusted	15.6	18.4	8	5.4	0.1	5	-0.6	-0.6	-0.1	1.1	1.3
Gross national Savings/GDP	23.2	27.5	18.9	18.7	12.3	15.9	17	17.5	17.4	17.1	16.5
Public Investment/GDP	9.1	11.5	14.3	15.7	9	15.9	13.3	12.6	11	10.6	9
Private Investiment/GDP	16.8	19	14.5	12	12.8	14.4	15.1	15.7	16.7	16.2	15.9
Public/private investment ratio	54.3	60.7	98.7	131.1	70.1	110.4	80.7	7.5	65.5	65.5	62.1
Exports growth rate	5.8	0.1	17.1	0.1	-2.4	10.6	6.8	9	9.5	11.3	9.1
Exports/GDP	11.7	13.2	17.4	19.9	17.7	20.3	24.8	26.9	26.7	27.2	27.4
Imports growth rate	2	4.5	6.6	-5.4	5	6.6	3.3	3.4	4	4.5	4.5
Imports/GDP	33.8	40.6	51.7	59.9	53.1	62.3	7.4	7	7	66.6	53.9
	-101.8	-102.5	-303.2	-233.9	-269	-293.5	-306.7	-304	290.9	289.1	-225.3
Current a/c balance (US $ m)											
Current a/c balance/GDP 5	-2.7	-3	-9.8	-9	-9	-10.8	-12.4	-11.6	-9.7	-8.5	-7.2

Tanzania: Key macro-economic indicators (percentage, unless otherwise mentioned)

(1) Through 1990/91. the numbers for actual payments made while from 1991/92, the data are based on scheduled payments. The debt service ratio show percent of exports of goods ann services, and not private transfer.

(2) According to best estimates, unofficial exports, receipts for which we are classified as "private transfer ' finance the funding of "own funds imports." If re-exports, these should be included in gross domestic savings and therefore included in the Adjusted" figures. (3)

Historical data for this series are inaccurate as the fiscal accounts did not include a lar ge proportion of aid.

(4) Current and capital

(5) Including grants.

SOURCE: World Bank "Tanzania: External Financing Requirement and Foreign Exchange Management" Paper prepared for the Consultative Group meeting for Tanzania Paris, July 12 - 13, 1993.

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