DOMESTIC DEBT MANAGEMENT IN AFRICA: THE CASE OF TANZANIA
About AFRODAD

Vision
AFRODAD aspires for an equitable and sustainable development process leading to a prosperous Africa.

Mission
To secure policies that will redress the African debt crisis based on a human rights value system.

Objectives include the following:
1. To enhance efficient and effective management and use of resources by African governments;
2. To secure a paradigm shift in the international socio-economic and political world order leading to a development process that addresses the needs and aspirations of the majority of people in the world;
3. To facilitate dialogue between civil society and governments on issues related to Debt and Development in Africa and globally.

From the vision and the mission statements and from our objectives, it is clear that the Debt crisis, apart from being apolitical, economic and structural issue, has an intrinsic link to human rights. This forms the guiding philosophy for our work on Debt and the need to have African external debts cancelled for poverty eradication and attainment of social and economic justice. Furthermore, the principle of equity must of necessity apply and in this regard, responsibility of creditors and debtors in the debt crisis should be acknowledged and assumed by the parties. When this is not done, it is a reflection of failure of governance mechanisms at the global level to protect the interests of the weaker nations. The transparent
arbitration mechanism on debt proposed by AFRODAD as one way of dealing with the debt crisis finds a fundamental basis in this respect.

AFRODAD aspires for an African and global society that is just (equal access to and fair distribution of resources), respects human rights and promotes popular participation as a fundamental right of citizens (Arusha Declaration of 1980). In this light, African society should have the space in the global development arena to generate its own solutions, uphold good values that ensure that its development process is owned and driven by its people and not dominated by markets/profits and international financial institutions.

AFRODAD is governed by a Board composed of seven members from the five regions of Africa, namely east, central, western, south and the North. The Board meets twice a year. The Secretariat, based in Harare, Zimbabwe, has a staff compliment of seven programme and five support staff.
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Acronyms

AFRODAD  African Forum and Network on Debt and Development
BOT       Bank of Tanzania
CF        Consolidated Fund
CMSA      Capital Markets and Securities Authority
DMO       Debt Management Office
DRI       Debt Relief International
DSE       Dar es Salaam Stock Exchange
GDP       Gross Domestic Product
HIPC      Highly Indebted Poor Country Initiative
JFA       Joint Finance Account
MDG       Millennium Development Goals
MDRI      Multilateral Debt Reduction Initiative
NDMC      National Debt Management Policy
NSSF      National Social Security Fund
PRGF      Poverty Reduction and Growth Facility
PRSP      Poverty Reduction Strategy Papers
TDMC      Technical Debt Management Committee
UDSM      University of Dar es Salaam
Acknowledgements

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AFRODAD also expresses its deep appreciation to the Church Development Service (Der Evangelische Entwicklungsdienst - EED) for their financial support for this project.
Preface

Domestic public debt is not a new phenomenon for developing countries. In the face of budget deficits, against a backdrop of drying up of concessional lending and reduction in development assistance due to the impact of the global financial crisis among others, borrowing from domestic markets becomes a viable option. However far less attention has been given to domestic debt in most development policy discussions. The efforts over the years have focused on external debt, particularly on the HIPC and MDRI debt relief mechanisms. While there has been a remarkable policy shift on external debt following implementation of HIPC and MDRI in a few developing countries, AFRODAD has seen the emergence of a new threat in debt management due to domestic borrowing which is not under the same scrutiny as external borrowing.

Domestic debt has been used to finance primary deficits and implement monetary policy in many African governments, so that it now constitutes a large share of the total debt stock. AFRODAD believes that reforms in debt management are critical to avert the vicious cycle of recurring debt burdens. If domestic debt is not managed within sustainable levels it will erode the benefits accrued from initiatives like HIPC and MDRI which had improved the fiscal space by freeing resources for pro-poor development programmes in some countries. Public domestic debt can be beneficial if used for the right purposes; however, enormous levels of domestic debt may have a negative effect on financial stability.

Arguments against domestic debt include the crowding out effect on private investment and its subsequent effect on economic growth especially in countries with relatively narrow domestic markets.
Domestic debt also affects the level of interest rates as they make borrowing expensive due to the relatively narrow investor base and the monopolistic tendencies of most investor groups in Africa. Domestic debt service can also absorb a significant amount of government resources which could be used for social services and other pro poor expenditures in the economy.

This report analyses the development of public domestic debt in Tanzania. The study notes that there was a general absence of the money and capital markets in Tanzania during the era where its government pursued socialist principles of economic management. However the government reversed this when the country launched financial sector reforms aimed at supporting a stable macroeconomic framework in 1991. The government also launched a national debt strategy in 2002, meant to be revised later in 2011.

New legislation and other reforms helped to develop a money market, strengthened the banking supervision function of the central bank, restructured state owned banks and introduced institutions such as the Capital Markets and Securities Authority (CMSA) in 1996 and the Dar es Salam Stock Exchange (DSE) in 1998. Tanzania therefore possesses the important infrastructure needed for managing domestic borrowing.

The country’s borrowing strategy has aimed primarily at sourcing loans from external, concessional lenders. However, this focus was affected by the global financial crisis of 2008/09 amongst other things where external sources of finance dwindled. Notwithstanding this, challenge, domestic debt in Tanzania is less dominant than external debt in the total public debt portfolio.
A number of instruments mainly for deficit financing, implementing monetary policy and infrastructure projects have been issued since these reforms. Analysis of the domestic debt instrument portfolio shows that government bonds have increasingly become more dominant than any other instrument reflecting the choice to lengthen the maturity of domestic instruments gradually.

However the study notes that information on contingent liabilities is not included in publicly available sources of data. AFRODAD sees a risk of these liabilities adding onto the domestic debt where public enterprises fail to honour them. The government should publish the size and attributes of contingent and other fiscal risks in line with full disclosure of fiscal information.

Using the provisional benchmarks suggested by Debt Relief International (DRI), Tanzania would seem not to have any domestic debt sustainability problems from the Domestic Debt/GDP and Domestic Debt/ Government Revenue perspectives. However, the country’s Domestic Debt Interest Payments/ Government Revenue give a different picture. According to the DRI ratio interpretation, Tanzania can be considered to have a potentially unsustainable domestic debt burden. The approach of this ratio to the potentially unsustainable range should sound as a warning of the increasing domestic debt burden in the country and should thus be treated with caution.

Of further concern to AFRODAD is the fact that from a cost perspective, interest payments on domestic debt have actually been commanding a greater proportion of both government revenue and recurrent expenditure as compared to external debt interest payments. Furthermore, the banking system is by far the dominant holder of government issued securities in Tanzania. The excessive
domination by one sector in the purchase of government securities does not augur well from a “systemic risk” point of view.

Tanzania possesses the basic legal and institutional framework to manage domestic public debt and AFRODAD has identified some areas which merit reform. Domestic debt can be mentioned more clearly in the constitution, as well as clearly extending the authority of the National Assembly in the Union over that. The constitution also does not mention the existence of the central bank (a key actor on domestic debt) and its roles. The government should address this urgently through the appropriate amendments.

Whilst parliament needs to play this important role over domestic debt they lack the capacity to play an effective role in controlling government’s loan contraction activities. Parliament must be assisted with extra research capacity to carry out budget analysis.

It would also appear that other stakeholders such as civil society currently play a marginal role on the issue of domestic debt. They need to build their capacity on this issue to enable them to play an effective watchdog role whilst they carry out extensive economic literacy targeted at the public on this phenomenon. Legislative reform is also needed to give them legal and institutional recognition in the process of public debt management.

AFRODAD hopes that Tanzania’s government will take these findings seriously and take decisive action to address any concerns raised.

Collins Magalasi PhD.
Executive Director
AFRODAD
Introduction

As shown in Table 1 below, there are three distinct phases in economic policy management in Tanzania since the country attained independence in 1961. The first phase, which evolved under the government of President Julius Nyerere (1961-1985), was characterised by pursuit of socialist principles of economic management under the Arusha Declaration of 1967 (Ujamaa Socialism). In regard of this policy, Tanzania replaced the capitalist, private sector market-led economy which it inherited from the colonial powers at independence with a state owned, centrally planned and controlled economy.¹ At first, Tanzania made progress in terms of economic and social development as real gross domestic product (GDP) growth rates averaged 4.7 % annually from 1968.

However, in the late 1970s and early 1980s, pervasive state ownership and intervention undermined economic performance in the country. Low, centrally determined prices and inefficient public marketing boards caused a sharp decline in agricultural production, particularly of export crops. Loss making public enterprises and huge budget deficits were financed by the printing press, causing inflation to rise above 30 % annually in the first half of the 1980s. Foreign exchange became increasingly scarce, leading to extensive licensing and rationing and a flourishing black market emerged with premiums that reached 700 % in 1986. Foreign creditors and suppliers went unpaid, arrears mounted, and shortages of imported inputs became acute.²

To address the deteriorating state of the economy the government embarked on economic recovery and reform programmes in the mid 1980s. The reforms went opposite to the previous political decision to embrace Socialism and the country once again embraced market-oriented and private sector led approaches of Capitalism. This marked the second phase of economic policy making in the country between 1985 and 1995, which Nord et al (2009: 4) identified as the era of liberalisation and partial reforms, presided over by the government of President Ali Hassan Mwinyi. During this phase, the economy was gradually liberalised. Prices were adjusted to market levels, as was the exchange rate, and restrictions on economic activities were gradually lifted. State ownership and government intervention were rolled back.

However, for most of this period economic growth remained weak and insubstantial. By the end of 1992, the government had abandoned its commitment to implementing the aforementioned reforms. The IMF, World Bank and bilateral donors suspended financial support to Tanzania in 1993 because of continuing deterioration in the management of the economy. The lack of expenditure control and inadequate tax administration in 1993-95 contributed to large fiscal deficits, a sharp decline in international reserves, and continuing high inflation as the government looked to the central bank to finance its fiscal deficit.3

After Tanzania’s 1995 elections, the new government under President Benjamin Mkapa undertook a vast program of structural reforms and macroeconomic stabilization with the support of the World Bank and the IMF. During this period, referred to by Nord et al (2009: 4) as the era of macroeconomic stabilization

3 (MEFMI and World Bank; 2001: 30)
and structural reforms, the government reformed and privatised parastatals, liberalised the financial sector, streamlined the civil service and implemented fiscal consolidation. These reforms resulted in significant improvement in the economic performance, characterised by higher broad-based real GDP growth (which rose from an average of 3.5% in 1997 to 5.2% in 2000), decline in inflation to single digit levels (from 15.4% in 1997 to 5% in 2000) and large increases in international reserves among others.

Table 1: Economic Transition of Tanzania

<table>
<thead>
<tr>
<th>POLICIES</th>
<th>OUTCOMES</th>
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| **1967-1985: Ujamaa Socialism and Economic Decline** | • Low export and real GDP growth  
• Deterioration of physical infrastructure  
• Loss-making state enterprises, and large subsidies financed by directed bank lending  
• Budget deficits financed by printing money  
• Shortages of goods and high inflation  
• Large external imbalances, exhaustion of foreign reserves, and build-up of external arrears  
• Rising poverty |
| • State control of the economy and state ownership of all major enterprises  
• Exchange rate and pricing policies based on non-market mechanisms  
• Devaluations and expansionary fiscal and monetary policies  
• Mismanagement of exogenous shocks (terms of trade and droughts)  
• External trade and forex controls | • Large segments of the economy still dominated by public monopolies  
• Insolvency of large state-owned banks and losses in other parastatals  
• Persistent weaknesses in budgetary management  
• Large fiscal deficits  
• Continued accumulation of arrears and monetization of the deficits  
• Elusive macroeconomic stability  
• Low growth for most of the period |
| **1986-1995: Liberalization and Partial Reforms** | • Higher broad-based real GDP growth  
• Inflation declined to single digits  
• Strong growth in non-traditional exports and turnaround in balance of payments  
• Large increase in international reserves  
• Composition of expenditure moved toward more allocations for poverty-reducing programs  
• Creation of efficient, competitive banking system  
• Increased credit to the productive sectors of the economy |
| • Liberalization of exchange and trade regimes  
• Liberalization of agricultural marketing system and domestic prices  
• Initiation of financial system reform  
• Initiation of parastatal and civil service reforms | • Privatization and reform of parastatals  
• Liberalization of financial sector  
• Creation of market-oriented regulatory framework  
• Trade reform, regional integration  
• Reversal of fiscal dominance of monetary policy  
• Fiscal consolidation  
• Sizable financial assistance from donors (debt relief, grants and concessional loans) |
Regardless of such improvements in some of the key macroeconomic indicators such as real GDP growth and inflation, the high external debt burden of the country had emerged as a major source of concern by the late 1990s. Faced with economic difficulties, Tanzania had borrowed heavily from a number of credit facilities, including loans related to the Structural Adjustment Programmes (SAPs), the Economic Recovery Programme (ERP) 1 and 11, and the Extended Structural Adjustment Facility (ESAF) to mention a few.

As a result of faulty domestic policies, between 1967 and 1995 foreign creditors and suppliers went unpaid, resulting in accumulation of debt arrears in the country. In addition to domestic factors, adverse external shocks also magnified the accumulation of debt in the country. Notable are the first and second oil price shocks of 1973 and 1979, which contributed to serious budget and balance of payments deficits. This necessitated borrowing not only from external but also from domestic sources to finance these deficits.

The debt crisis also worsened following slumps in commodity prices, the breakup of the East African Community (EAC) in 1977, and rising real interest rates in global financial markets. As a result, external debt rose from US$ 4.9 billion in 1986 to USD 7.9 billion in 1997 while debt arrears increased sharply from US$ 0.66 billion to US$ 3.1 billion, respectively. By December 1997, bilateral debt accounted for 44.4 % of the debt stock, while multilateral debt, private and commercial accounted for 48 % and 8 % respectively.

The economic recovery programs implemented from 1986 had

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a debt reduction component embedded in them. Despite these efforts however, divergence between debt service demands and debt service capacity grew, leading to a relentless build up of arrears and an increasingly unsustainable debt stock.\textsuperscript{6}

Considering the high debt burden of Tanzania, its high dependence on donor funds and its high social and developmental needs, the IMF and World Bank considered Tanzania eligible for the Highly Indebted Poor Countries (HIPC) Initiative. As such, Tanzania was among the first countries to qualify for the HIPC Initiative.\textsuperscript{7} Tanzania reached HIPC completion point in November 2001, being the fourth country to do so, after Bolivia, Mozambique and Uganda. Debt relief under HIPC from all Tanzania’s creditors is estimated to amount to approximately US$3 billion over time. The net present value (NPV) of Tanzania’s total external debt is estimated to have been reduced by 54% under HIPC. The NPV of debt-to-export ratio is expected to remain well below the target ceiling of 150% from 2000 throughout to 2020. Debt service payments are also estimated to have been cut substantially by an average of 47% from about US$193 million in fiscal year 1999/2000 (actually paid before HIPC assistance) to an average of US$116 million during 2001/02 to 2010/11, and US$87 million during 2011/12 to 2020/21 period (IMF, 2001: 1).

The country’s external debt continues to increase due to foreign disbursements, exchange rate fluctuations and accumulation of interest arrears on non Paris Club bilateral and commercial debt despite the HIPC debt relief. The country’s debt burden which had reduced sharply to 20.6% of GDP at the end of June 2007

\textsuperscript{7} AFRODAD, 2005 page 9
due to the HIPC and MDRI has steadily crept upwards since then, amounting to 34.7% of GDP by end of June 2011. Furthermore, there is also an increase in the country’s domestic debt, mainly attributable to increases in borrowing through securities for liquidity management, settlement of parastatal debt, claims, and budget financing.

The government committed to allocate resources made available from debt relief to key anti-poverty programs, which are outlined in Tanzania’s National Strategy for Growth and Reduction of Poverty (known as MKUKUTA). In view of the various intervention made by the government in this respect, real GDP growth has been strong in the country, averaging 7% per year from 2002-2011. Regardless of these high rates of economic growth, poverty is still pervasive in Tanzania. The 2007 Household Budget Survey shows that the incidence of monetary poverty has declined only marginally on the mainland from 35.7 percent in 2001, to 33.6 percent in 2007. Given the rapid population growth rate (about 2.8 percent), the absolute number of poor people is estimated to have increased by 1.3 million.

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DEVELOPMENTS IN DOMESTIC DEBT IN THE COUNTRY

Evolution and Characteristics of Domestic Debt

Prior to 1991, there was a general absence of the money and capital markets in Tanzania. The financial sector was wholly state owned and in existence were a few long-term non-tradable papers, which were issued in favour of the state owned institutions. From 1991 there was a launch of comprehensive financial sector reforms aimed at supporting a stable macroeconomic framework, development of a money market, strengthening of the banking supervision function of the Bank of Tanzania (BOT), restructuring of state owned banks and starting with enactment of the Banking and Financial Institution Act in August 1991.¹¹

It was in the midst of these financial sector reforms that in August 1993, the BOT first introduced 91-day Treasury Bill Auctions as a tool for financing short-term government deficit, as an instrument for liquidity management and as a reference point for the determination of market interest rates. This was followed by the introduction of a 35-day Treasury bill in September 1993.

In 1994 financial sector reforms continued with the:

• enactment of the Capital Market and Securities Act in January to encourage greater private sector participation in the development of the country’s capital markets;
• introduction of the 182-day Treasury Bill in February;
• introduction of the Interbank Foreign Exchange Market which replaced the weekly foreign exchange auction system

and facilitated the determination of the exchange rate on the market; and
• the introduction of the 364-day treasury bill on the market in December.

Following this, the Dar es Salam Stock Exchange (DSE) was officially opened for business in 1998.

In order to help replace the Government’s long term, non-tradable debt, market based Treasury Bonds were first launched in May 1997, starting with the 2-year maturity bonds. Following the recommendations of the 2002 National Debt Strategy, which pointed out the need to introduce longer-term tradable bonds to cater for maturing large amounts of non-tradable long term stocks, special bonds and outstanding parastatal related liabilities, more treasury bonds in maturities of 5-, 7- and 10-years were introduced in February, July and August 2002 respectively. It was envisaged that the issuing of these bonds would facilitate the extension of the maturity profile of the government debt, lengthen the yield curve and increase the number of tradable instruments in the market.\textsuperscript{12}

In addition to the evolution of treasury bills and bonds, there also came into existence special long-term bonds and stocks over the years. Special long-term bonds were issued mostly for purposes of recapitalizing state owned banks with large non-performing loans and unsettled liabilities. Stocks which are identical in structure to ‘long term bonds’ arose mostly out of ‘securitization’ of advances, exchange losses and other direct or parastatal liabilities owed by Government to the banking system, in particular BOT.\textsuperscript{13}

\textsuperscript{12} Bank of Tanzania  http://www.bot-tz.org/ 2012
Tanzania’s Debt Strategy

The Government of Tanzania first published an External Debt Strategy (EDS) in March 1999 in the context of the launch of the HIPC initiative. After reaching the HIPC Completion Point in November 2001, it was seen important that the External Debt Strategy be updated to include the role for domestic borrowing, an area that had remained largely untouched in the HIPC discussions. This led to the development of the 2002 National Debt Strategy (NDS).

The objectives of this strategy as also clearly highlighted in the Government Loans, Guarantees and Grants Act No. 30 of 1974 as amended in 2004 are to meet the Government financing requirements at the lowest possible cost with a prudent degree of risk, and development of the domestic financial markets. The Government Loans, Guarantees and Grants regulations of 2004 categorizes objectives of debt management into primary and secondary. Primary objectives are (i) to ensure the financing needs of the Government are met and (ii) to minimize borrowing costs for the Government. The secondary objectives are (i) to support development of domestic financial markets (ii) to ensure sustainability of debt burden, and (iii) to minimize debt related risks. In line with the above, the indicated strategy in the 2002 NDS is to limit net domestic financing to 1% of GDP, while maximizing concessional sources of external borrowing. Gradual lengthening of the maturity of domestic debt instruments was also cited as critical in developing the country’s domestic debt market.

In order to ensure debt sustainability, the following are some of the strategies that were recommended in the 2002 NDS:
1. Reduce Debt/GDP – as a longer term strategy it was recommended that the government could target the EU’s Maastricht criteria of 60% Debt/GDP ratio;

2. Increase the Primary Balance/GDP ratio - it was indicated that this could be achieved through higher budget support (grants) from donors and a combination of revenue-increasing and expenditure-reducing measures;

3. Increase the Real Growth Rate (g) by improving the Utilisation of Project Financing Resources – the strategy indicates that it is important to realise that there is nothing wrong with borrowing, externally or domestically, to finance key development projects in the economy. However, what is undesirable is to raise funds whose cost exceeds the marginal return on investment (i>g). This was deemed important taking note of the fact that sub-optimal utilisation and application of borrowed funds was a salient reason for Tanzania’s past debt sustainability problems. In order to ensure that this problem does not recur, it was recommended that the government must improve its project feasibility assessment capacity, and strengthen its project implementation and tracking systems. In particular, greater involvement of the Ministry of Finance in assisting sector ministries and the Planning Commission at the project evaluation stage, with a view to establishing the “financial” (as opposed to only “social”) viability of projects, was cited as key;

4. Reduce the real interest rate (i) by developing an optimal balance between external and domestic debt - Once the social and financial viability of a project is established, it was indicated that it will be important to find the lowest-possible funding source for that project, borrowing domestically or externally depending with the relative interest rates on domestic and external debt, and their contribution to the total weighted average interest rate;
5. Reduce the cost of external borrowing – It was stipulated that focus should be on further reducing the debt service burden of foreign borrowing, by adopting the following measures:

- direct monetary policy towards exchange rate stability, to the extent permitted by macroeconomic fundamentals;
- increase the grant element in foreign borrowing by raising the minimum concessionality requirement for foreign borrowing from 35% to 50%;
- subject the incurring or guaranteeing of all foreign debt to cabinet approval upon recommendation by the Minister of Finance; and
- lend official support to the United States’ proposal of increasing the share of grants in IDA aid to developing countries from about 10% (at the time of the NDS drafting and adoption) to 50%.

Whilst the 2002 strategy aimed to optimise borrowing from concessional sources of external loans, Tanzania has had trouble in accessing concessional lending facilities due to the global financial crisis of 2008/09 amongst other things. This has motivated the government to consider borrowing from non-concessional sources starting in the FY 2010/11, while still maintaining a net domestic financing target of 1% of GDP. The main driver of this approach has been the need to speed up implementation of planned infrastructure developments.

In 2011 Tanzania introduced the Medium Debt Management Strategy (MTDS), which comprised of varied external borrowing strategies such as concessional multilateral, semi-concessional bilateral, 10-year Eurobond, 7-year syndicated loan, and Export Credit Agency guaranteed commercial bank loans, which have...
been under consideration. The MTDS was an attempt to develop a more quantitative annual debt management strategy based on medium term analysis of costs and risks.\textsuperscript{14} Even though the MTDS was one of the attempts to develop a quantitative debt strategy, it is still acknowledged that the country currently lacks a comprehensive quantitative debt strategy besides the 2002 qualitative NDS.

Composition of Domestic Debt Portfolio by Instrument

In regard of the foregoing, domestic debt in Tanzania comprises of marketable and non-marketable securities. Marketable securities consist of Treasury bills (35, 91, 182 and 364 days) and Treasury bonds (2, 5, 7 and 10 years) whereas non-marketable securities comprise Government stocks and special bonds. The 35 and 91 day Treasury bills are issued solely for liquidity management purposes or open market operations (OMO) whereas the 182 and 364-days are issued for both liquidity management and government financing purposes.\textsuperscript{15} The BOT also uses the 182 and 364 day bills to maintain yield curve consistency.

Tanzania issues the 2, 5, 7, and 10 years bonds solely for financing purposes.\textsuperscript{16} The 2001 National Debt Strategy envisaged that bonds with long maturities will assist in financing projects with long gestation projects. In this regard, the strategy suggested that infrastructure and road projects could be directly financed from such schemes by actually naming the instrument after the project that is expected to be financed from it. Thus a 10-year certificate issued to raise money for a road connecting Bagamoyo.

\textsuperscript{14} The MTDS was developed by the Government through the Ministry of Finance in collaboration with the International Monetary Fund (IMF), World Bank and the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI).
\textsuperscript{15} Ministry of Finance United Republic of Tanzania. 2011. Medium Term Debt Management Strategy page 5
\textsuperscript{16} Tanzania Debt Sustainability Technical Team, 2005. page 10
and Morogoro for instance, can be called “10-year Bagamoyo-Morogoro Road Scheme”.

Analysis of domestic debt instrument portfolio shows that government bonds have increasingly become more dominant than any other instrument, increasing from an average of 48% of the total domestic debt as of September 2002 to 69% as of September 2012 as shown in Fig 1 below:

**Figure 1: Composition of Domestic Debt by Instrument September 2002 to September 2012**

Source: Compiled from Bank of Tanzania Data (2012)

The dominance of government bonds as the major instrument reflects the implementation of the country’s debt management strategy on domestic financing which aims to lengthen the maturity of domestic instruments gradually by decreasing the share of 2 and 5-year bonds and increasing the share of 7 and 10-year bonds among others. The implementation of this strategy has also
resulted in a gradual decrease of the proportion of treasury bills in the overall instrument portfolio. However, treasury bills which decreased in proportion of the total debt instruments from an average of 24% in 2002 to 12% in 2009 have since increased again reaching 26% of the total outstanding domestic debt instruments as of September 2012. Consequently, this exceeds the medium term projections set in the MTDS that the proportion of treasury bills will be maintained at 17% of gross domestic financing up to 2013 as shown in Table 2 and Figure 2 below:

Table 2 Composition of Domestic Financing

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<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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<tr>
<td>Treasury-bills</td>
<td>17%</td>
<td>17%</td>
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<tr>
<td>2-year bonds</td>
<td>17%</td>
<td>17%</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>5 &amp; 7-bonds</td>
<td>44%</td>
<td>44%</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>10-year bonds</td>
<td>21%</td>
<td>21%</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
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</table>

Source: United Republic of Tanzania, MTDS June 2011.

Figure 2: Target versus Actual Proportion of Treasury Bills in the Total Domestic Financing Portfolio

Source: Compiled from the Bank of Tanzania Data and the 2011 MTDS
In regard of the above developments, the profile of Tanzania’s total domestic debt stock by instrument from September 2002 to September 2012 is as shown in Table 3 below:

**Table 3: Domestic Debt by Instrument from September 2002 to September 2012 (TZS billion)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Government Securities</td>
<td>796.13</td>
<td>907.93</td>
<td>925.04</td>
<td>1,649.25</td>
<td>1,747.81</td>
<td>1,852.56</td>
<td>1,990.48</td>
<td>2,409.89</td>
<td>3,037.71</td>
<td>3,965.11</td>
<td>4,624.74</td>
</tr>
<tr>
<td>Treasury Bills</td>
<td>196.49</td>
<td>325.24</td>
<td>267.61</td>
<td>712.64</td>
<td>580.45</td>
<td>575.50</td>
<td>340.30</td>
<td>298.71</td>
<td>401.63</td>
<td>763.17</td>
<td>1,187.38</td>
</tr>
<tr>
<td>Government Bonds</td>
<td>390.97</td>
<td>459.09</td>
<td>536.12</td>
<td>756.60</td>
<td>987.35</td>
<td>1,097.90</td>
<td>1,338.40</td>
<td>1,853.23</td>
<td>2,378.13</td>
<td>2,944.80</td>
<td>3,180.22</td>
</tr>
<tr>
<td>Government Stocks</td>
<td>208.61</td>
<td>123.54</td>
<td>121.25</td>
<td>179.95</td>
<td>179.95</td>
<td>179.1</td>
<td>311.72</td>
<td>257.89</td>
<td>257.89</td>
<td>257.08</td>
<td>257.08</td>
</tr>
<tr>
<td>Tax Certificates</td>
<td>0.06</td>
<td>0.06</td>
<td>0.06</td>
<td>0.06</td>
<td>0.06</td>
<td>0.06</td>
<td>0.06</td>
<td>0.06</td>
<td>0.06</td>
<td>0.06</td>
<td>0.06</td>
</tr>
<tr>
<td>2. Other Government Debts</td>
<td>15.04</td>
<td>16.51</td>
<td>16.51</td>
<td>16.51</td>
<td>16.51</td>
<td>8.28</td>
<td>8.28</td>
<td>8.28</td>
<td>8.28</td>
<td>8.28</td>
<td>8.28</td>
</tr>
<tr>
<td>Others</td>
<td>15.04</td>
<td>0.04</td>
<td>0.04</td>
<td>0.04</td>
<td>0.04</td>
<td>0.04</td>
<td>0.04</td>
<td>0.04</td>
<td>0.04</td>
<td>0.04</td>
<td>0.04</td>
</tr>
<tr>
<td>3. Total Domestic Debt (1+2)</td>
<td>811.18</td>
<td>924.44</td>
<td>941.55</td>
<td>1,665.76</td>
<td>1,764.32</td>
<td>1,860.84</td>
<td>1,998.76</td>
<td>2,418.17</td>
<td>3,045.99</td>
<td>3,973.39</td>
<td>4,624.78</td>
</tr>
<tr>
<td>4. Interest Arrears</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>5. Total Domestic Debt Stock (3+4)</td>
<td>811.18</td>
<td>924.44</td>
<td>941.55</td>
<td>1,665.76</td>
<td>1,764.32</td>
<td>1,860.84</td>
<td>1,998.76</td>
<td>2,418.17</td>
<td>3,045.99</td>
<td>3,973.39</td>
<td>4,624.78</td>
</tr>
</tbody>
</table>

Source: Bank of Tanzania 2012

Tanzania’s government has issued guarantees on behalf of its public enterprises and it confers borrowing powers on them. This information is however excluded from the Table 3 above constructed from publicly available data. In principle, when government makes guarantees for non sovereign borrowings and liabilities of regional and local governments, and public/private sector enterprises it adds onto the domestic debt as contingent liabilities when they fail
to pay. These liabilities should therefore always be declared. Some of these liabilities are included in Table 4 below.

<table>
<thead>
<tr>
<th>Name of Parastatal</th>
<th>Lender</th>
<th>Date</th>
<th>Purpose of Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tanzania Fertiliser Company (TFC)</td>
<td>ABC, CRDB</td>
<td>18/9/08</td>
<td>Buying and Distribution of Fertiliser for the 2008/09 Season</td>
</tr>
<tr>
<td>Tanzania Electric Supply Company (TANESCO)</td>
<td>Stanbic, CRBD, NMB, Eximbank, TIB, NSSF, PPF, PSPF, LAPF, GEPF</td>
<td>26/11/07</td>
<td>Syndicated loan facility utilised for refinancing the existing debt and implementation of the Financial Recovery Plan</td>
</tr>
<tr>
<td>University of Dar-es Salam</td>
<td>CRBD</td>
<td>7/10/07</td>
<td>Construction of Business Park (Faculty of Commerce)</td>
</tr>
<tr>
<td>Higher Education Student’s Loan Board (HESLB)</td>
<td>PSPF</td>
<td>9/9/06, 13/6/06, 4/6/06</td>
<td>2006 – Credit Financing 2007 – Higher Education Lending</td>
</tr>
<tr>
<td>SUKITA</td>
<td>NBC/CHC</td>
<td>7/5/85, 15/12/87</td>
<td>Overdraft</td>
</tr>
<tr>
<td>Mara- Cooperative Union</td>
<td>NBC/CHC</td>
<td>Overdraft for Cotton Procurement</td>
<td></td>
</tr>
<tr>
<td>State Motor Corporation</td>
<td>NBC/CHC</td>
<td>4/6/88</td>
<td>Overdraft</td>
</tr>
<tr>
<td>Tanzania Sisal Authority</td>
<td>NBC/CHC</td>
<td>30/4/85, 8/7/87, 8/7/99</td>
<td>Overdraft</td>
</tr>
</tbody>
</table>

Compiled by AFRODAD, 2012

17 Africa Banking Corporation (ABC)
18 Co-operative & Rural Development Bank (CRBD)
19 National Merchant Bank (NMB)
20 Tanzania Investment Bank (TIB)
21 National Social Security Fund (NSSF)
22 Parastatals Pensions Fund (PPF)
23 Public Service Pensions Fund (PSPF)
24 Local Authority Pension Fund (LAPF)
25 Government Employees Provident Fund (GEPF)
26 National Bank of Commerce (NBC)
27 Consolidated Holding Corporation (CHC)
To further demonstrate the importance of declaring contingent liabilities of public corporations in the analysis of domestic debt, trends analysis shows a dramatic increase in their borrowing from 2009 (see Fig. 3 below).

Fig 3: Trend in Public Corporate Liabilities, 2002/03 to 2009/10

From September 2002 to September 2012, Tanzania’s total domestic debt stock increased by an average of 470%, mainly characterised by the issuance of government securities to finance the government’s budget deficits. The annual increases in the country’s domestic debt have become more significant since 2009 as compared to the previous years (2003 to 2008) where the average annual increases have generally been below 10%. The only exception was in 2005, when the country’s domestic debt stock increased by 77% from TZS 925.04 billion as of September 2004 to TZS 1,649.25 billion as of end of September 2005, as a result of a huge increase in treasury bills issued during the fiscal year.
As highlighted above, the country aimed to rely primarily on concessional financing for funding the government’s net borrowing requirements. However, the government resorted to borrowing on the domestic debt market to meet the country’s infrastructure and other borrowing requirements due to the difficulties associated with the 2008/09 global financial crisis and a corresponding decline in domestically collected revenue. Consequently, domestic debt increased by 21% from TZS 1,990.48 billion as of September 2008 to TZS 2,409.89 billion as of end September 2009. As the country’s overall deficit continued to widen as shown in Fig 4 below, domestic debt stock also increased accordingly, rising by 26%, 30% and 16% in 2010, 2011 and 2012 respectively.

![Fig 4: Tanzania Overall Deficit (before Grants) between 2002/03 and 2010/11](source: Compiled from the Bank of Tanzania 2011 Economic and Operations Annual Report (2012))

**Holders of Domestic Debt**
As shown in Fig 5 below, holders of domestic debt instruments
in Tanzania include the BOT, Commercial Banks, Non Bank FIs, Pension Funds, Insurance Companies and Other Individuals.

Fig 5: Holders of Tanzania’s Domestic Debt Instruments, 2009 to 2012

As shown in Fig. 5 above, the dominant holder of government securities in Tanzania is the banking system, with the BOT and Commercial banks holding approximately 73% of all the outstanding government securities as of September 2012. The commercial banks are the leading owners of securities in this category, holding 52%, while the BOT held an average of 21% respectively. The relatively low risk in Government securities as compared to lending to the private sector as well as the expansion of the banking sector helps explain the dominance of commercial banks in the securities market. The holdings of the Pension Funds have however decreased from an average of 23% as of September 2009 to 17% as of September 2012. On the other hand, insurance
companies and other individuals increased their holdings during the same period from 1.7% and 2.1% to 5.5% and 2.8% respectively.

**Proportion of Domestic Debt in the Total Debt Portfolio**

On average, domestic debt in Tanzania is less dominant than external debt in the total public debt portfolio. The dominance of external debt over domestic debt emanates from the borrowing strategy of the government, which has generally been laid out in the budget guidelines, as funding the government net budgetary deficits virtually entirely from external sources (grants and concessional loans) and limit net domestic debt issuance. This primary recourse to external financing has its origins in the unavailability of the right opportunities for borrowing domestically.

A low level of financial market development (and liberalisation until the early 1990s) meant the government, historically, could not borrow from domestic sources at the “right” price.\(^{28}\) This guided the development of the objectives of the country’s debt strategy as the need to meet the Government financing requirements at the lowest possible cost with a prudent degree of risk while at the same time developing the domestic financial markets. Reflecting this strategy, the country’s debt portfolio has been largely characterized by a high proportion of concessional debt, implying a high share of external debt in the total debt stock as shown in Figure 6 below:

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\(^{28}\) Ministry of Finance United Republic of Tanzania, 2002 page 2
Fig 6: Proportion of Domestic Debt to Total National Debt

Source: Compiled from Ministry of Finance database (2012)
THE IMPACT AND SUSTAINABILITY OF DOMESTIC DEBT ON THE ECONOMY

The main reasons for issuance of domestic debt in Tanzania over the years include the following:

- Recapitalizing state owned banks with large non-performing loans and unsettled liabilities (through special long-term bonds and stocks),
- Short-term government deficit financing,
- Monetary instrument for liquidity management,
- Indexing for the determination of market interest rates and,
- Financing Infrastructure projects.

A specific example of an infrastructure project, successfully financed through domestic debt is the construction of the Mabibo Hostel at the University of Dar-Es-Salarn (UDSM). Initially, UDSM borrowed these funds from the National Social Security Fund (NSSF). This debt was however taken over from UDSM by the Government of Tanzania in 2003. As shown in Table 3, this debt was fully paid off as of February 2012.

From a cost perspective however, interest payments on domestic debt have actually been commanding a greater proportion of both government revenue and recurrent expenditure as compared to external debt interest payments as shown in Fig 7 and Fig 8 below:
Fig 7: Domestic and External Debt Interest Payments as a % of Government Revenue

![Graph showing domestic and external debt interest payments as a percentage of government revenue from 1999/00 to 2011/12.]

Source: Compiled from the Bank of Tanzania Data

Fig 8: Domestic and External Debt Interest Payments as a % of Recurrent Expenditure

![Graph showing domestic and external debt interest payments as a percentage of recurrent expenditure from 1999/00 to 2011/12.]

Source: Compiled from the Bank of Tanzania Data (2012)
The higher burden on the government budget in terms of domestic debt interest payments in comparison to external debt is a reflection of the expensive nature of domestic borrowing which is characterised by higher interest rates in contrast to those on external debt which is normally concessional. Holding everything constant, this expensive nature of domestic debt implies a trade off in investing in social and other MDG related expenditures as more and more resources are continually being channelled towards domestic debt servicing.

**Sustainability of the Current Domestic Debt**

Unlike the case of external debt, there are currently no internationally agreed benchmarks for assessing the sustainability of domestic debt. However, Debt Relief International (DRI) has suggested some provisional benchmarks and thresholds shown in Table 5 below, which can be used as a rule of thumb in domestic debt sustainability analysis based on their experience in HIPC Capacity Building Programme.\(^{29}\)

<table>
<thead>
<tr>
<th>Domestic Debt indicator</th>
<th>Threshold range (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt/GDP</td>
<td>20-25</td>
</tr>
<tr>
<td>Debt/Revenue</td>
<td>92-167</td>
</tr>
<tr>
<td>Debt Service / Revenue</td>
<td>28-63</td>
</tr>
<tr>
<td>Interest / Revenue</td>
<td>4.6-6.8</td>
</tr>
</tbody>
</table>

Source: Johnson (2001: 21)

\(^{29}\) *Domestic Debt Stock/GDP measures the level of domestic indebtedness relative to the country’s economic activity. It implicitly assumes that all of GDP is accessible for financing the domestic debt burden, which is generally not the case. Domestic Debt Stock/Domestic Budget Revenue measures the level of domestic indebtedness relative to the government’s ability to repay, demonstrating the number of years of revenue required to repay the entire debt stock. Domestic Debt Service/Domestic Budget Revenue measures the government’s ability to pay debt service from domestic resources, with debt service being the sum of interest and principal. Interest/Domestic Budget Revenue measures the interest cost of domestic debt.*
Based on these thresholds, countries with debt ratios at, or near, the top of the threshold range set out in Table 5 above will have already accumulated payments arrears and will be facing an unsustainably high domestic debt burden. Those with ratios below, or near, the bottom of the range do not have arrears and hence their debt can be considered sustainable. Countries with ratios falling within the range can be considered to have potentially unsustainable domestic debt burdens.

Using this framework, Tanzania would seem not to have any domestic debt sustainability problems from the Domestic Debt/ GDP and Domestic Debt/ Government Revenue perspectives, as the ratios remained well below the bottom ranges of 20% and 92% respectively, between 2002 and 2012 as shown in Table 6 below. However, the country’s Domestic Debt Interest Payments/ Government Revenue give a different picture as shown both in Fig 9 and Table 6 below: Between 2002 and 2012, the ratio consistently fell within the 4.6 to 6.8 range, and even exceeding the top range in 2006. According to the DRI ratio interpretation, Tanzania can therefore be considered to have a potentially unsustainable domestic debt burden from this point of view. The prevailing of this ratio in the potentially unsustainable range should sound as a warning of the increasing domestic debt burden in the country and should thus be treated with caution.
The Case of Tanzania

**Fig 9: Interest Cost of Domestic Debt, 2002 - 2012**

![Figure 9: Interest Cost of Domestic Debt, 2002 - 2012](image)

Source: Compiled from the Bank of Tanzania Data and the DRI Thresholds (2012)

**Table 6 Domestic Debt Indicators, 2002 - 2012**

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>DRI Thresholds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Debt Stock/GDP</td>
<td>7.8</td>
<td>7.6</td>
<td>6.7</td>
<td>10.4</td>
<td>9.8</td>
<td>8.9</td>
<td>8.1</td>
<td>8.6</td>
<td>9.4</td>
<td>10.6</td>
<td></td>
<td>20 - 25</td>
</tr>
<tr>
<td>Domestic Debt Stock/Government Revenue (excluding grants)</td>
<td>77.8</td>
<td>75.9</td>
<td>64.5</td>
<td>93.9</td>
<td>83.0</td>
<td>67.9</td>
<td>54.7</td>
<td>56.3</td>
<td>65.3</td>
<td>69.3</td>
<td>64.0</td>
<td>92-167</td>
</tr>
<tr>
<td>Domestic Debt Interest Payments/ Government Revenue (excluding grants)</td>
<td>6.2</td>
<td>4.7</td>
<td>4.8</td>
<td>4.9</td>
<td>7.7</td>
<td>6.8</td>
<td>6.5</td>
<td>4.8</td>
<td>4.5</td>
<td>5.0</td>
<td>4.8</td>
<td>4.6-6.8</td>
</tr>
</tbody>
</table>

Source: Calculated from the Bank of Tanzania Annual Reports Publications (2001-2012)
THE LEGAL AND INSTITUTIONAL FRAMEWORK ON DOMESTIC DEBT

This section deals with the systems and structures put in place to foster fiscal sustainability. Laws and regulations governing the raising and disbursement of public funds are scrutinised for their operational efficiency and compliance with standards of transparency and financial reporting. The institutional framework and coordination between departments is also discussed for role clarity and to assess checks and balances.

THE LEGAL FRAMEWORK ON DOMESTIC DEBT

*The Constitution of the United Republic Of Tanzania Of 1977*

The 1977 constitution is Tanzania’s supreme law, and this includes Zanzibar, a semi autonomous part of the United Republic of Tanzania (hereafter the Union) which has its own constitution and government. The 1977 constitution recognises the executive and legislative authorities existing in both Tanzania and Zanzibar. Executive authority is vested in the President or by delegation of such authority to other persons holding office in the service of the Union. The Cabinet advises the President.

Legislative authority in the Union is vested in the National Assembly. The Zanzibar House of Representatives elects five members to participate in the Union’s national assembly on union matters. What is important to note is that article 4 of the constitution states that any law enacted by Parliament shall not apply to Zanzibar unless (i) the law expressly states that it applies both to the Mainland and Zanzibar (ii) the law repeals legislation in both territories (ii) the
law pertains to union activities. For emphasis, article 132 (1) of Zanzibar’s 1985 constitution stipulates that, “no law enacted by the Union Parliament shall apply to Zanzibar unless that law relates to Union affairs only and having complied with the provisions of the Union Constitution.”

In this regard, the finances of the United Republic are covered in the constitution of Tanzania (the Union Constitution).

The Union operates a special account called the Joint Finance Account (hereafter JFA), which is part of the Consolidated Fund of the Union (hereafter the CF). In addition to the CF, the constitution also authorises Parliament to enact a law providing for the establishment of a Contingencies Fund in line with article 140 (1). Revenues from both governments are paid into the JFA in line with laws enacted by Parliament. Any money withdrawn from the CF must comply with provisions of this constitution, as well as be authorised by Parliament through an Appropriation Act. Furthermore, no money shall be paid out of the CF without the approval of the Controller and Auditor-General, as well as in line with procedures or purposes defined by law.

According to article 141 (1) the public debt of the Union, comprised of debt itself; interest charged; sinking fund payments and the costs, and charges and expenses incidental to the management of that debt, shall be charged on the CF. Two schedules in the constitution clearly define what will be considered as Union and non-Union matters. External borrowing and trade are listed under Union matters.

The office of Controller and Auditor General for the Union and his/her duties is provided for in line with article 143 of the 1977

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31 The United Republic Of Tanzania the Constitution of the United Republic Of Tanzania Of 1977 page 80
constitution. An important issue to note where roles on domestic debt are concerned is that constitution does not mention the existence of the central bank and its roles.

**The Governments Loans, Guarantees and Grants Act, 1974 (amalgamated with the Governments Loans, Guarantees and Grants (Amendment) Act, 2003)**

Public loan contraction and management for the Union is generally dealt with in this Act which repealed the Local Loans Ordinance and the Loans and Guarantees Act of 1962. The Act vests the state’s authority to borrow external and domestic debt in the Minister of Finance. The incumbent may however delegate this in writing in line with subsection 30 of this act which is ideal in practice.

Subsection 32 of the Act states that borrowing must fall in line with the objectives in the debt management strategy which is also ideal from a debt management perspective. The current national debt strategy which was launched in August 2002 was, “developed with a view to guiding the Government in current debt stock as well as future borrowing in both external and domestic debt. It provides for strategies to reduce the current stock and discourage new borrowing unless the borrowing is for priority areas listed in the strategy.”

The handling of external debt whose depository is the CF is dealt with in Part II on Foreign Loans. The Minister has discretion to raise external loans subject to two conditions. Firstly, the aggregate of the service cost coming due and payable on all outstanding foreign loans in a financial year (and the four succeeding financial years)

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should not exceed 15% of, “the average annual foreign exchange earnings computed on the basis of the annual foreign exchange earnings of the preceding three financial years.” 33 Secondly, the aggregate of the service cost coming due and payable on all outstanding loans (external plus domestic debt) in a financial year (and the four succeeding financial years) should not exceed 30% of, “the average annual recurrent revenue computed on the basis of the three proceeding financial years.” 34 The latter condition is important as it recognises the interplay between external and domestic debt on the overall indebtedness of the country. Indeed, debt sustainability analysis has traditionally focused on external debt for a number of reasons.

Subsection 4 states that the cost of procurement of assets outside Tanzania will be added onto the external debt, where the payment has to be done subsequent to the date of the acquisition. The Minister also has discretion over repayment of loans, conversion of terms of loans and negotiations over rescheduling of debt with creditors which can be seen to allow for rollover of repayments where domestic debt instruments are concerned.

The issue of domestic debt is covered more explicitly under Part III on Local Loans. The Minister is empowered to raise appropriate loans within Tanzania through bills, bonds or stock or any other method he/she deems to be expedient. One condition, which applies to this, is that in no year must the aggregate of the service cost becoming due and payable in respect of all outstanding loans (external plus domestic debt) in that financial year exceed 30%, “of the average annual recurrent revenue computed on the basis of the

33 The United Republic Of Tanzania The Governments Loans, Guarantees And Grants Act, 1974 Amalgamated With The Governments Loans, Guarantees And Grants (Amendment) Act, 2003 page 5
34 The United Republic Of Tanzania The Governments Loans, Guarantees And Grants Act, 1974 Amalgamated With The Governments Loans, Guarantees And Grants (Amendment) Act, 2003 page 5
three preceding financial years.” The BOT’s role in domestic debt will be to maintain the book entry system for securities held by investors in line with section 8 (d).

Prompt debt servicing is generally recommended as best practice to avoid the build up of interest and arrears, resulting in financially unsustainable debt. Where domestic debt is concerned however, there should be appropriate proportions of short- and long-term paper in the domestic debt portfolio to reduce risk. In this regard, the act says,

- bonds and stocks should become redeemable at a par on a specified date not be more than fifty years from the date of issue,
- treasury bills may provide a maturity date later than a year,
- interest on securities shall be paid half yearly, unless the Minister specifies longer intervals,
- interest on principal ceases to accrue on the date appointed for redemption.

The Minister exercises further discretion in line with sub subsection 10 over various aspects of securities, such as price of issued securities, denominations in which they will be issued, rates of interest and scheduling of repayments and place of repayments amongst other things. Issuing domestic debt, whether to finance the fiscal deficit or to mop up monetary liquidity, involves a complex evaluation of the costs and benefits to the economy.

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35 The United Republic Of Tanzania The Governments Loans, Guarantees And Grants Act, 1974 Amalgamated With The Governments Loans, Guarantees And Grants (Amendment) Act, 2003 page 7
this regard, the act states that securities must be issued upon the best and most favourable terms and conditions according to the National Debt Management Committee (NDMC) analysis.

The act establishes the National Debt Management Committee (NDMC) or National Committee, an advisory structure on public debt created which is explained further below. The NDMC is served by a Secretariat. The act also provides for a technical committee called the Technical Debt Management Committee (TDMC) of the National Committee (also known as the Technical Committee).

The Act authorises the Minister to issue guarantees for loans raised by local authorities or parastatals subject to specific, conditions on the advice of the NDMC. One condition for issue of guarantees is that the proceeds of the guarantee must be used for the priority areas set out in the Act. Indeed proper deployment of external resources is a key principle in the application of best practices for debt management.\textsuperscript{38} The other condition is that the guarantee must not be more than 70\% of the amount borrowed, as long as the NDMC has not put a waiver on this requirement. If the guarantee is for a parastatal, it should provide adequate securities to the Minister to cover the loan in the event of default. The net amount guaranteed in any year should not exceed the ceiling for guarantees given by government in a financial year.

\textbf{The Public Corporations Act, 1992}

The President, who has the power to establish public corporations in terms of this law in terms of Part II of this Act, is expected to provide for the corporations to keep proper financial accounts. The Tanzania Audit Corporation is authorised to audit the

\textsuperscript{38} Argawal, 2001 page 16
public corporations whilst the Minister of Finance may approve independent auditors where government is not the shareholder in the corporation. Statements of accounts of the corporations are presented to the respective portfolio ministers, who shall lay these statements before the National Assembly.

The Act gives every public corporation in which the Government is the sole shareholder power to borrow money as the President may confer upon it by order in the Gazette. Where the corporation borrows the money from government through Parliament, the public corporation may be required to pay interest on the amount in line with subsection (2). The President may however waive this interest in line with subjection (3) for any period he/she sees fit.

Money raised for public corporations through borrowing will be charged and issued out of the CF, and the Act also says that the government may borrow for these corporations internally or externally with the approval of the National Assembly. In subsection (6) the government may guarantee repayment of the principal of and the payment of interest and other charges on any borrowings of a public corporation in such manner and on such conditions as it may think fit.

**Public Finance Act 2001 (amended, 2010)**

The Act deals mainly with control and management of public finance, handling of revenue and expenditure, preparation and examination of accounts, audit of public authorities and other bodies (including the Office of the Controller and Auditor-General). It sets out key responsibilities with respect to public finance, some of which are incidental to the issue of public debt. It should

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39 The United Republic Of Tanzania The Public Corporations Act, 1992 page 20
therefore be seen as instrumental in the management of public debt.

For instance, it spells out that part of the duties and powers of the Minister of Finance and Treasury will be to,

(a) to develop and implement a macroeconomic and fiscal policy framework for the United Republic and shall, for that purpose-
(i) supervise and monitor the finances of the United Republic;
(ii) coordinate international and inter-governmental financial and fiscal relations.40

The Minister is also expected to advise government on the required resource allocations to the public sector and other programmes under its purview. The incumbent is responsible for ensuring that full and transparent accounts are made available at the specified time to Parliament annually in collaboration with the Accountant General and Controller and Auditor General (both roles created in terms of this Act), as well institutionalising the necessary accountability systems.

In the context of debt management, these accounts are expected to include, a statement of the amount of outstanding public debt, guarantees (in terms of bank overdrafts, loans, public loan issues and other contingent liabilities) as well as outstanding loans issued by government at the end of each financial year in line with Part IV 25 (1) (d) to (f). Equally important from a debt management perspective is the stipulation that the accounts must include a statement of the source and application of funds in the CF in 25 (1) (B).

40 The United Republic Of Tanzania Public Finance Act 2001 Page 5
The Bank of Tanzania (Amendment) Act, 2006

The Act, which applies to the United Republic, repealed the BOT Act (1995) and established the central bank in its current form, which has evolved from colonial times when Tanzania’s monetary system was aligned to that of Kenya and Uganda through the East African Currency Board (EACB). After independence the passing of the BOT Act in 1965 changed this arrangement.41

Most of the bank’s instruments, which depended on a competitive environment, became inoperative under the environment which prevailed after the Arusha Declaration (1967).42 The bank now sees its primary objective as price stability through monetary policy, and this needs a number of measures to be in place, which includes the encouragement of well-functioning and effective financial markets.43

Its subsidiary functions can be summarised as the bank of issue, the bankers’ bank, the government’s bank, advisor to (the two) governments, guardian of the country’s international reserves, supervision of bank/financial institutions and promotion of financial development (Bank of Tanzania, 2012). Some of these roles, such as that of being the official depository of the government’s or the public authority, may be delegated to another financial institution in line with Part IV (32) (2). The 2006 amendment sought to provide for more responsive regulatory role of the BOT in relation to the formulation and implementation of monetary policy, supervision of banks and financial institutions and for other related matters.

41 Bank of Tanzania website www.bot-tz.org 2012
42 Ibid. 2012
43 Ibid. 2012
The management of the Bank and the direction of its business and affairs is vested in the Governor who shall conform to the policy and other decisions made by the Board in the exercise of such functions and direction. In view of the topic, the Governor, who is the principal representative of the bank, is the bank’s signatory, and signs securities issued by the Bank.

Where domestic debt is concerned, the Minister may issue negotiable interest-bearing securities at market determined interest rates with a fixed maturity date to restore the Bank’s level of paid up capital (where the Bank’s balance sheet indicates that the amount of its assets is less than the amount of its liabilities and the statutory fund).

In line with Part IV (32) (2) (b) the Bank may act as the agent of the government, “for servicing the public debt, including the issuance of payment of interest on and the redemption of bonds and other securities of the Governments.” The bank may also purchase, sell, transfer or accept for custody cheques, bills of exchange and other securities in line with article (d) of this section, as well as collect the proceeds, whether principal or interest, resulting from the sale for, accruing to the interest of, the Government or public authority of securities or other property in (e).

Subsection 34.–(1) (b) allows the bank to, “Purchase, hold and sell Treasury bills issued by the Governments which mature not later than twelve months from the date of issue.” To offset fluctuations between receipts from government’s budgeted revenues and payments, article 35 (1) the central bank is also allowed to purchase, hold and sell negotiable government stocks, bonds or similar

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44 The United Republic Of Tanzania The Bank of Tanzania (Amendment) Act, 2006 page 22
debt obligations or other securities. These instruments must bear interest at a rate determined by the Bank, and they must mature not later than twelve months from the date of issue.

The bank is allowed to purchase, sell and rediscount on behalf of banks, bills of exchange, promissory notes and other credit instruments so long as such instruments bear the endorsement or acceptance of a bank, and matures within one hundred and eighty days from the date of acquisition or rediscount by the Bank in line with 39 (1). The bank is also allowed to advance loans to banks against securities as collateral and offer rediscount services to them.

Audit of the Bank shall be done by the Controller and Auditor General in line with 20 (6) of the act (as well as the Public Finance Act). The Minister of Finance in turn submits an annual report on the Bank to the National Assembly, which includes these accounts.

**The Capital Markets and Securities Act, 1994**

The Capital Markets and Securities Authority (hereafter the CMSA) created by this legislation promotes and facilitates the development of an orderly, fair and efficient capital market and securities industry in Tanzania. It also makes provisions with respect to stock exchanges, stockbrokers and other persons dealing in securities, and for connected purposes.45

The Chairman of the Authority, who holds office for three years, will be appointed by the President on the recommendation of

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45 *The United Republic Of Tanzania Capital Markets and Securities Act, 1994* page 6
The Case of Tanzania

the Minister of Finance in line with Part II (3) (a). The Authority is comprised of representatives of key institutions, such as the Governor of the central bank and the Attorney General (or their delegees) amongst others. A chief executive takes charge of the day to day running of the institution. The Authority has a number of Committees which works on specialized areas, which are the Licensing, Prospectus Evaluation & Rules and Regulations Committees (Capital Markets and Securities Authority, 2012).

The general functions of the authority can be summarised as advice on the securities industry (to the Minister), surveillance (of the market), licensing and control of participants, mediation of possible conflicts and well as policy formulation (designing principles for the sector). The Authority has investigative powers on the transactions relating to acquisition and disposal of securities and prosecutions for offences against any provisions of the act may be taken by the Director of Public Prosecutions or by the Authority. The Authority vets and approves applications to run stock exchanges in line with Part III (25). They can also impose any conditions they see fit for applications for licenses for dealerships. The Authority is therefore generally a powerful institution where the management of domestic debt in Tanzania is concerned.

A relevant issue to highlight in the context of public debt is that the Authority is one of the public institutions authorised to borrow for its own purposes in line with Part II (6) (2) (c) of this act.

The Act is supplemented by various regulations that are promulgated by the Minister for Finance such as the Capital Markets and Securities (Corporate Governance) Guidelines, 2002 or the Capital Markets and Securities (Custodian Securities) regulations, 2006 to name a few.
Banking and Financial Institutions Act 1991 (Amendment 2006)
In relation to the issue of domestic debt, the act authorises licensed banks or financial institutions to trade in securities for own account or for customers amongst other things. These entities are also allowed to participate in securities issues, and the provision of services related to such issues, through separately incorporated subsidiaries.

INSTITUTIONAL FRAMEWORK AND COORDINATION BETWEEN DEPARTMENTS

In terms of legislative oversight the Public Accounts Committee (PAC) in the National Assembly is key in the loan contraction process as it is empowered to examine all government accounts and directs respective ministers to take necessary actions for non-compliance with relevant legislation.\(^{46}\) Parliament receives reports semi annually from the Minister of Finance, which include the annual debt strategy and borrowing plan, quarterly debt strategy implementation report and debt and budget execution reports.\(^{47}\) The overall legislative authority and powers of parliament over public finance and borrowing captured in the legal framework have also been described above.

However, whilst the PAC is empowered to conduct independent audits it has previously been noted that there is no documented evidence of them coming out strongly on any violations, mainly due to the prevailing dominant one party system in the legislature.\(^{48}\) Furthermore, it has been observed that the National Assembly

\(^{46}\) Billeeya, M. 2007. Unpublished research notes on Tanzania’s loan contraction. Dar es Salaam page 8
\(^{47}\) The United Republic Of Tanzania, 2003 page 11
\(^{48}\) AFRODAD, 2005 page 17
The Case of Tanzania

lacks capacity in terms of adequate staff that can provide expert advice and analysis of reports laid before them.49 “The result of this is that the National Assembly usually fails in its role of controlling the Government’s loan contraction activities.”50 The International Budget Partnership (IBP) in their 2012 Open Budget Survey which is also discussed further below, also echo concerns over the strength of the legislature’s and supreme audit institutions in budget oversight. The survey recommends that Tanzania’s parliament should have a specialised budget research office to assist with budget analysis, and be given the authority in law to amend the Executive’s Budget proposal.51

The Governments Loans Guarantees and Grants (Amendment) Act 2003 provides for the creation of a ten-member National Committee (NDMC) referred to above, which serves as Tanzania’s high level public debt policy committee. This shall be, “an advisory body to the Minister on all matters relating to debt management.”52 Its functions will be:

- to advise the Minister on matters relating to external and domestic borrowing, issuing of government guarantees and acceptance of grants on behalf of Government;
- to monitor the implementation of the Annual Debt Strategy and borrowing plan approved by the Government for the ensuing quarter;

49 AFRODAD, 2008 page 18
50 Ibid. page 18.
51 The Open Budget Survey assesses whether the central government in each country surveyed makes eight key budget documents available to the public, as well as whether the data contained in these documents is comprehensive, timely, and useful. The Survey uses internationally accepted criteria to assess each country’s budget transparency developed by multilateral organizations. International Budget Partnership (IBP) Open Budget Survey 2012 on Tanzania [O] Available www.internationalbudget.org Accessed 2013/6/20 page 3
52 The United Republic Of Tanzania The Governments Loans, Guarantees And Grants Act, 1974 Amalgamated With The Governments Loans, Guarantees And Grants (Amendment) Act, 2003 page 10
c) to prepare quarterly debt and budget execution reports;
d) to advise on the formulation of an Annual Debt Strategy and borrowing plan;
e) to monitor, co-ordinate and direct the activities of all government departments and institutions involved in the management of debt, grants and guarantees; and
f) to advise on the measures to be taken against any person for non-compliance of the provisions in the Act.\(^{53}\)

The National Committee may establish any sub committees as may be necessary in line with subsection 21. It regulates its own procedures and meets quarterly. The members of the National Committee are the permanent secretaries of Treasury (the Chairperson), Ministry of Finance, Ministry of Finance Zanzibar, President’s Office Planning and Privatisation, Prime Minister’s Office and Ministry of Foreign Affairs and International Cooperation. There are also the Accountant Generals of the Ministry of Finance and Zanzibar. The Governor of the Central Bank of Tanzania and the Attorney General also serve on this committee.

The act also provides for the Technical Debt Management Committee (TDMC) which is chaired by the Commissioner of Policy Analysis in the Ministry of Finance. The TDMC provides technical advice to the National Committee. The Technical Committee is comprised of the heads of the units involved in debt management from the respective institutions represented in the National Committee according to 19 (3) of the Act.

The NDMC’s advice is based on three main considerations:
• Annual Debt Strategy and borrowing plan;

\(^{53}\)The United Republic Of Tanzania The Governments Loans, Guarantees And Grants Act, 1974 Amalgamated With The Governments Loans, Guarantees And Grants (Amendment) Act, 2003 Page 10
• New borrowing and guarantees to be issued quarterly;
• Consolidated Debt Management and Execution reports on quarterly basis.\textsuperscript{54}

The Attorney General provides legal advice to ensure the process is consistent with any relevant domestic and international laws in the loan contraction process as well as examining any agreements before the Minister of Finance signs them.\textsuperscript{55} The National Committee Secretariat, whose members are appointed from the Policy Analysis Department of the Ministry of Finance, serves these structures.

In the absence of a Debt Management Office (DMO), the Ministry’s Policy Analysis Department, headed by the Commissioner for Policy Analysis is charged with the following responsibilities falling in the category of front, middle and back office functions, as well as implementing decisions in line with existing debt policies:

• \textit{Formulate fiscal policies in areas of revenue mobilization, expenditure allocation and management as well as sources of financing fiscal deficit},
• \textit{Formulate debt policy and strategic framework for debt management and its sustainability},
• \textit{Monitor implementation of various economic restructuring programmes and reform},
• \textit{Establish and monitor the relevant debt indicators and debt related performance criteria},
• \textit{Monitor and evaluate fiscal, monetary, balance of payment and debt position on quarterly basis with the aim of identifying problems to be solved},

\textsuperscript{54} Billegaya, 2007 pages 6-7
\textsuperscript{55} Ibid. page 8
• **Focal point for co-ordination of fiscal and debt management and strategic policies,**

• **Co-ordinate as well as analyse research work on fiscal and debt issues,**

• **Co-ordinate preparation of Cabinet Papers and implementation of cabinet decisions,**

• **Co-ordinate preparation of national budget speeches and implementation of parliamentary resolutions with respect to budget policies,**

• **Manage database incorporating statistics for main macroeconomic elements, sectoral operations and public debt statistics,**

• **Co-ordinate preparation of responses to Parliamentary questions.**

As highlighted above, the central bank is responsible for auctioning securities, servicing public debt, maintaining and settling accounts and reporting debt data in line with existing policies and strategies. It is the Tanzanian government’s agent for loan disbursement and payments, playing some of the front and back office functions in a fragmented but coordinated approach with Treasury. It also implements monetary policy for which domestic debt is issued in Tanzania.

Another key participant in the development of an orderly, fair and efficient capital market and securities industry in Tanzania is the CMSA whose governance structure and operations are described above. The CMSA’s internal structure is included as Appendix 1. The Dar es Salaam Stock Exchange (DSE), which was incorporated in 1996, also compliments this role as a securities exchange and depository, and has participated in the listing of government securities (specifically Treasury Bonds) from 2002. The DSE is governed by a Council which consists of 10 members.

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57 \text{ Billegga, 2007 page 9}
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drawn from interested groups which includes the public. This offers opportunities for inclusivity of watchdog groups in the management of domestic debt.\(^{58}\)

Non Banking Financial Institutions (NBFIs) such as pension funds play a major role as part of financial markets that can buy/trade in government securities.\(^{59}\) In this regard, Tanzania’s National Social Security Fund (NSSF) contributes by safeguarding and promoting the interests of the members of the Fund by directing investments into safe, high yielding investments which include government securities.\(^{60}\) The NSSF’s allotment of funds is included as Appendix 2.

\(^{58}\) Dar es Salaam Stock Exchange http://www.dse.co.tz/ Accessed 20/6/13

\(^{59}\) Deredza, C. Kadoma, 7-8 March 2013 “Best Practice in Legal And Institutional Frameworks For Effective Public Debt Management” Made at the High-Level Workshop on Institutional and Legal Framework for Debt Management In Zimbabwe, 2013

\(^{60}\) National Social Security Fund [O] Available http://www.nssf.or.tz/ Accessed 20/6/13
The typical procedure for borrowing by a government agency or parastatal under this framework is summarised in Fig. 10 below:

Figure 10

Typical Borrowing Procedure in Tanzania

(Adapted from Billegeya, 2007)
THE ROLE OF OTHER STAKEHOLDERS IN DOMESTIC DEBT MANAGEMENT (INCLUSIVITY)

The Third World Debt Crisis has been a major arena for reflection and debate on the issue of citizen participation and inclusivity in public affairs. Some creditors such as the IMF and World Bank now recognise that public participation in general, and public access to information is central to good public debt management.  

Apart from sentiments raised in a meeting to validate preliminary findings of this study, it was difficult to get survey responses from targeted civic leaders in Tanzania on their level of engagement on the issue of public domestic debt management. Nonetheless previous AFRODAD studies on Tanzania’s loan contraction shed light extensively, on the role of Parliament, civil society and creditors in the process of public loan contraction and debt management.  

It is plausible to assert that the findings are still relevant and reflect the role of other stakeholders in domestic debt management in particular.

Briefly, Tanzania’s loan contraction process has been characterised by poor public participation, secrecy of processes, dominance of the executive arm of government and creditors (particularly the IFIs) and underperforming SOEs to whom loans were advanced.  

A number of CSOs were cited as taking a leading role in expenditure tracking on poverty reduction. However it was felt that they lacked

61 IMF and World Bank in Fall, A. 2003 Best Practices For Poverty Reduction and Sustainable Development: Public Participation In Africa Series No. 5 Geneva: UNITAR page 14
62 AFRODAD, 2005 and 2008)
63 AFRODAD, 2005 page 22; 2008 pages 21-22
in effective leadership and skilled personnel for effective monitoring on loan contraction as well as facing restrictions to operate.\textsuperscript{64}

Furthermore, when Tanzania qualified for HIPC, the implementation of Poverty Reduction Strategy Papers (PRSP) was supposed to be consultative and participatory in nature. However, the PRSP process in Tanzania was weakened due to lack of participation by civil society in the Poverty Reduction and Growth Facility (PRGF), as well as remaining a prescription of the IFIs. Civil society in Tanzania was particularly peeved that they were involved in the process in a token manner that suggested that government was merely trying to meet criteria to get debt relief.\textsuperscript{65}

Indeed, in the aforementioned validation meeting, participants highlighted the fact that the focus of civil society on public debt management has traditionally been on external debt, mainly in the context of HIPC. The issue of domestic debt is perceived to be an emerging, technical issue which requires extensive research, sensitization and civic education, lobbying and advocacy, networking and information sharing.\textsuperscript{66}

According to the aforementioned 2012 Open Budget Survey, during the course of the budget year Tanzania’s government provides the public with only some information on the national government’s budget and financial activities. Amongst their recommendations, they say that the country must increase the comprehensiveness of the Executive’s Budget Proposal, specifically by focusing on providing information on the level and composition

\begin{itemize}
  \item [64] AFRODAD, 2008 page 21 and 2005 page 22
  \item [65] AFRODAD, 2002. Civil society participation in the PRSP process. A case for Tanzania. page 4 and 24
  \item [66] Mwakagenda, H.T. 28 November 2012 “The role of stakeholders in Tanzania’s domestic debt management” made at a validation meeting for research on Tanzania’s Domestic Debt. Dar es Salaam 2012
\end{itemize}
of government debt for the budget year and the year prior to the budget year amongst other things.\textsuperscript{67} They also recommended that information on contingent and future liabilities be also added. They however acknowledge that the country’s score on the Index has gradually improved which is encouraging. The sentiment on lack of openness has also been echoed by civil society in Tanzania.\textsuperscript{68}

It is also clear from the preceding chapter that the entire legal framework on loan contraction in general, and domestic debt in particular; as well as the current debt strategy all exclude explicit mention of civic actors participation in the process. These issues limit transparency in the current framework of managing domestic debt. This picture stands in contrast to articles 18 and 21 in the Tanzanian constitution which guarantee the right to freedom of expression as well as freedom to participate in public affairs respectively.\textsuperscript{69} The right to information is a right established in the context of freedom of information legislation. Put simply, this legislation not only governs the freedom of persons to ‘disseminate’ information but also the freedom to ‘receive’ such information from others. “They establish a “right-to-know” legal process by which requests may be made for government-held information, to be received freely or at minimal cost, barring standard exceptions.”\textsuperscript{70}

\textsuperscript{67} International Budget Partnership (IBP) 2013 page 2
\textsuperscript{69} The United Republic Of Tanzania, 1977 pages 18-19
CONCLUSION AND POLICY RECOMMENDATIONS

It is clear from the foregoing that the growth of total public debt in general and domestic debt in particular is tied intricately to distinct phases in the evolution of Tanzania’s economy. External debt accumulated rapidly in the years following independence to unsustainable levels. This made Tanzania dependent on debt relief, leading to qualification for HIPC, reaching completion point in 2001.

During the era of the centrally planned economy, Tanzania could not borrow domestically, as it did not have a functional capital market and the necessary policies and institutions to support this. The country however went through some changes marked by radical reforms to support a stable macroeconomic environment. This included introduction of policy changes in the financial sector from August 1991, and the adoption of a debt management strategy in 2002 (reviewed in 2011). These reforms created the structural basis for domestic public borrowing to develop and grow. Since then, domestic debt in Tanzania has been used mainly for deficit financing, implementing monetary policy and infrastructure projects.

Tanzania’s 2002 debt strategy initially aimed to focus on concessional external borrowing but this was affected by the global financial crisis of 2008/09. This motivated the government to consider borrowing from non-concessional sources such as domestic capital markets, mainly to speed up implementation of planned infrastructure developments.
Domestic debt in Tanzania comprises of marketable and non-marketable securities. The country has currently issued Treasury Bills, Government Bonds, Government Stocks and Tax Certificates. Some instruments have also been issued in the name of specific infrastructure projects.

Analysis of the domestic debt instrument portfolio shows that government bonds have increasingly become more dominant than any other instrument, increasing from an average of 48% of the total domestic debt as of September 2002 to 69% as of September 2012. This reflects the implementation of the country’s debt management strategy on domestic financing which aims to lengthen the maturity of domestic instruments gradually.

It has been highlighted that information on contingent liabilities was not included in publicly available sources of data. However, AFRODAD sees a risk of these liabilities adding onto the domestic debt where public enterprises fail to honour them. In the ideal situation, all categories of debt (inclusive of data on the above) should be factored-in to enable oversight bodies and a wider audience to monitor any developments and implications of domestic debt. The government should publish the size and attributes of contingent and other fiscal risks in line with full disclosure of fiscal information.

The banking system (commercial banks and the Bank of Tanzania), continues to hold the lion’s share of securities far above the target set in the country’s own debt strategy, showing limited progress in diversifying the investor base over the past years. Interventions should be made to diversify and increase the participation of different investors on the country’s domestic debt market.
Domestic debt in Tanzania is less dominant than external debt in the total public debt portfolio. The dominance of external debt over domestic debt emanates from the borrowing strategy of the government. However, from a cost perspective, interest payments on domestic debt have actually been commanding a greater proportion of both government revenue and recurrent expenditure. This is reflects the expensive nature of domestic borrowing which is characterised by higher interest rates.

Using provisional frameworks by DRI, Tanzania would seem not to have any domestic debt sustainability problems from the Domestic Debt/GDP and Domestic Debt/ Government Revenue perspectives. However, the country can be considered to have a potentially unsustainable domestic debt burden when looked at using Domestic Debt Interest Payments/ Government Revenue. This should sound a warning of the increasing domestic debt burden in the country and should thus be treated with caution.

In principle, all countries’ public loan contraction and debt management rules and regulations must be anchored on constitutional provisions and other precise pieces of legislation. A key issue to highlight in relation to Tanzania’s legal framework is that only external borrowing is listed as a Union matter under the first supplementary schedule to the supreme document. Union matters are those issues captured in two supplementary schedules which the National Assembly in the union of Tanzania and Zanzibar are authorised to preside over. The First Schedule in the constitution must be amended to also include domestic debt as a Union matter. This will reduce ambiguity by including all relevant liabilities in the constitution e.g. government securities, guarantees and contingent liabilities. It will also ensure Parliamentary oversight over all components of public debt. A further issue to note is that
the constitution does not mention the existence of the central bank and its roles. The government should address this urgently through the appropriate amendments.

It can also be seen that the entire legal framework on loan contraction in general, and domestic debt in particular; as well as the current debt strategy all exclude explicit mention of CSOs in the process. Legislation should state clearly that CSOs will play an advisory role in the process of loan contraction and debt management, carry out research and advocacy throughout the stages, monitor funded projects and programmes and raise public awareness on issues of loans, grants and development finance issues.

Tanzania has the institutional framework for domestic debt management involving diverse institutions such as political, technical and market related institutions. The major concern in relation to how they contribute to domestic debt management mainly centres on the role of Parliament.

It has been noted that the PAC lacks capacity in terms of adequate staff that can provide expert advice and analysis of reports laid before them. The result is that there is no evidence of them acting strongly on any violations of public finance rules in the National Assembly. AFRODAD adds its voice to calls by stakeholders for a specialised budget research office to be established for assisting Parliament with budget analysis whose powers to amend the Executive’s Budget proposal should be enhanced.

The authority of the Presidency to confer borrowing powers on public corporations has also been described. Ideally, the ultimate power to borrow on behalf of the central government, and any other entities such as local authorities or public corporations, should rest
with Parliament who delegates this to the Executive through the Minister for Finance who should be legally authorised to borrow for state enterprises through an explicit and clear legal framework. The Minister can do this acting on technical advice (e.g. acting on the advice of the NDMC when the Minister guarantees parastatal loans on the in line with the Governments Loans, Guarantees and Grants Act, 2003).

Financial oversight of these entities should be solely by National Treasury itself. Treasury can also assist boards of public corporations to play their accounting role, in collaboration with line ministries. Parliamentary portfolio committees shadowing line ministries can then play their constitutional oversight on the performance of the corporations as well as reviewing their accounts. This would guarantee parliament’s authority over all elements of public debt as well as ensuring that the primary target for reporting by public corporations is the legislature.

The levels of inclusivity of the public domestic debt management process have also been analysed. CSOs focused on debt and developments have been focusing traditionally on external debt. They also perceive domestic debt to be an emerging, technical issue which requires extensive research, sensitization and information sharing to enable them to carry out effective advocacy. As mentioned above, the legal framework does not foster participation of civic actors in public debt management. Linked to this, Tanzania’s government has been providing the public with only some information on the national government’s budget and financial activities.

AFRODAD urges civil society in Tanzania to build their capacity on domestic debt to play an effective watchdog role; as well as enhance economic literacy amongst their members and raise the
public’s awareness on the issue. Tanzania’s legal framework should also include institutional recognition of civil society in public debt management. Accordingly, government should set up official fora and processes through which citizens can debate and influence economic policy proposals to strengthen public ownership of the economic and debt strategies.

AFRODAD also supports calls for Tanzania to provide more information on the government debt for the budget year and the year prior to the budget year in the Executive’s Budget Proposal. This should include contingent and future liabilities by public corporations cited in the findings above.
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Websites


Interviews

Komba, B. 2012. Interview with the Tanzania Accountant General. 11 October, Dar es Salaam

Workshop Presentations

Appendix 1: The CMSA Organization Structure

Source: Capital Markets and Securities Authority http://www.cmsa-tz.org/about/cmsa_organization.htm accessed 12/11/2012
Appendix 2

ALLOTMENT OF INVESTIBLE FUNDS BY THE NATIONAL SOCIAL SECURITY FUND (NSSF)

<table>
<thead>
<tr>
<th>Risk/Return Class</th>
<th>Investment Category</th>
<th>Allotment (%)</th>
<th>Total holding (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Money Market</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Treasury Bills</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Fixed deposits/commercial papers</td>
<td>15</td>
<td>35</td>
</tr>
<tr>
<td></td>
<td>Long term investments 65%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>Bonds</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Government Bonds</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Corporate Bonds</td>
<td>10</td>
<td>25</td>
</tr>
<tr>
<td>D</td>
<td>Loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Government &amp; Corporate Loans</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Others: SMEs &amp; lending through financial Institutions</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>E</td>
<td>Real Estates</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>F</td>
<td>Equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Listed Companies</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Unlisted Companies</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>G</td>
<td>Housing Financing</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>H</td>
<td>Infrastructure</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>I</td>
<td>Emerging Markets*</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

NB: *Emerging markets refer to any other investment opportunities that may emerge in the domestic economy. The definition may extend to offshore investments as soon as the Capital Account is liberalised.
