

TANZANIA COUNTRY REPORT 2008

Background and debt sustainability

Tanzania remains one of the world's poorest countries, with a per capita GNI of US\$400, and over 12 million people (one third of the population) living below the poverty line. Its economy relies heavily on agriculture (half of GDP and 80% of the workforce), but tourism and mining are growing in importance. Due to continued political stability and economic reform, the economy has achieved growth rates above 5% per year since 2000.

Tanzania reached HIPC Decision Point April 2000 and Completion Point in November 2001. In 2006 Tanzania qualified for MDRI resulting into cancellation of approximately US\$3.8 billion of debt owed to the IMF, IDA and AfDB. The combined HIPC and MDRI relief has resulted in highly sustainable debt.

Tanzania is using LIC-DSF indicators to assess its external debt sustainability, and CBP indicators to assess domestic and total sustainability. Both external and domestic debts are sustainable. Nevertheless, domestic debts remain high, and Tanzania needs to enhance policy measures to control the growth of domestic debt and avoid future debt service risk. It also has urgent needs to increase the quantity and quality of its external financing, mobilising very high levels of aid (which represents 40% of budget expenditure) to maintain debt sustainability and finance attainment of the MDGs, and enhancing aid effectiveness.

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| <p>CBP support and impact</p> | <p>Tanzania was one of the first countries to benefit from assistance on a debt strategy, attending the MEFMI/DRI regional debt strategy workshop in 2005, and having its first national Debt Strategy Workshop in 1997, which aimed at assessing the eligibility of Tanzania for HIPC debt relief and options for the Paris Club debt relief. Since then, it has benefited from 11 regional workshops and three further national workshops in the first three CBP phases, in 1998 (preparing for decision point), 2002 (updating the post-completion point DSA and designing new financing policy) and 2003 (preparing a debt strategy analysis which was adopted by Parliament in 2005 in the National Debt Strategy as part of the budget documents).</p> <p>During phase 4, two debt strategy update missions/workshops were conducted in 2006 and 2008, providing training for new staff and new developments in debt strategy analysis, including the LIC-DSF and prospects for issuance of international or local bonds. Although the issuance of an international bond would have a relatively modest impact on external sustainability, the international financial crisis has led postponement of such an issue. Tanzania has continued to update its debt strategy analysis annually for approval with the budget documents. In 2007 expansion of the distance learning programme led to 3 Tanzanians participating, all of whom graduated, including 1 with distinction. Two further students are enrolled in the current intake.</p> <p>As can be seen in the table below, as a result of HIPC-CBP activities, Tanzania (indicator MT2a) has developed extremely high technical ability to use debt strategy tools and prepare a debt strategy, and approves and updates the strategy regularly. However, it could improve the quality of the strategy by including more detailed risks analysis (which was started in 2008) and could implement the strategy more systematically. It has a very high quality legal framework though institutional coordination could be further improved (indicator MT2b). It has the highest number of national experts developed in the various technical areas of debt strategy, who are also used as regional experts (ST3a), and a high-quality capacity-building plan (ST3c). These developments have been assisted by low staff turnover over the past three to four years. However, it has not yet reached the extremely high scores it set as targets for phase 4 of the CBP.</p> |
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| <p>Objectives and content of proposed country assistance</p> | <p>The current priorities for reinforcing Tanzanian capacity (and activities envisaged for the remainder of phase 4) are:</p> <ul style="list-style-type: none"> • Training more staff, implementing the approved strategy more fully, and new financing and domestic debt strategy formulation. This will be done through a further national debt strategy workshop and approval seminar in 2008/09, as well as 1 follow-up mission to support strategy implementation. This activity will improve scores for MT2a and ST3a. • Linking the overall national capacity-building plan to individual training needs. This will take place through one institutional support mission to improve the institutional framework (score for indicator MT2b). This activity will be financed through non core funding <p>Tanzania is also expected to participate in the LIC-DSF training for trainers regional workshops organised by MEFMI, WAIFEM and DRI in 2009, which will improve its ability to train staff in how to use the LIC-DSF.</p> <p>These activities are expected to move Tanzania substantially towards its targets shown in the table below.</p> |
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Country Debt Strategy Progress

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| Progress and Intended Results | CBP Logical Framework Performance Indicators | Original Score (1999) | Phase IV Baseline | Phase IV Current | Phase IV Target |
| | LT 1. Debt sustainability | 3 | 5 | 5 | 5 |
| | MT 2a. Debt management strategy updated at least once a year. | 4 | 4.6 | 4.6 | 4.8 |
| | MT2b. High-quality legal and institutional frameworks for debt strategy | 3 | 4.4 | 4.4 | 4.6 |
| | ST 3a. Trained personnel capable of formulating and executing national debt strategies | 3 | 4 | 4 | 5 |
| | ST 3c. High-quality capacity building plans which are implemented and annually updated. | 1 | 4 | 4 | 5 |
| Expenditure and Budget | Overall spending on Tanzania since the start of CBP activity has been US\$237,765. The budget allocated to events to support Tanzania in phase 4 is US\$184,384. Of this amount, US\$83,298 is to be financed from core funds. | | | | |