

Mbelle, A. V. Y.

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HIPC relief: Too late, too little? Perspectives from a new qualifier, Tanzania

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HIPC Relief: Too Late, Too Little?

Perspectives from a New Qualifier, Tanzania

A. V. Y. Mbelle *

December 2002

Abstract

In 1970 the external debt of Tanzania, a least developed country, was 16.8 per cent of GDP and 58.6 per cent of exports. The ratio of per capita debt to per capita income was 14.4 per cent. By 2001 the debt had reached just over 100 per cent of GDP and over 11 times the value of exports, with a per capita debt to per capita income ratio of 102 per cent. By any wisdom this is a terrifying story. Efforts to address the debt burden have involved own initiatives and global initiatives, the latest being the enhanced HIPC Initiative.

What are the new prospects? This paper attempts to assess the potency of the HIPC Initiative in addressing the key agenda items in Tanzania: poverty reduction/eradication and resolving the external debt burden. The assessment involves analysing long-term trends in debt build-up and debt servicing obligations as well as Tanzania's efforts in order to become eligible for the enhanced initiative, though still attempting to achieve the completion point at over 16 months after reaching the decision point.

The main conclusions are that relief comes too late to address adverse impacts and is too little to meet poverty targets. This calls on Tanzania to concentrate on complementary measures and the HIPC Initiative to undergo refinements like addressing the time lag between decision and completion points, and incorporating ratio of recurrent expenditure as a threshold level.

Keywords: HIPC, debt, Tanzania

JEL classification: F34, H6, O55

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* Department of Economics, University of Dar es Salaam; E-mail: avymbelle@hotmail.com

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Katajanokanlaituri 6 B, 00160 Helsinki, Finland

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If in year 2000, Tanzanians (totalling 31.9 million) decided ... to starve themselves to death in order to pay off their external debt, they would succeed in paying about 78 per cent debt burden. They would all go in their graves with an unpaid debt of nearly US\$ 57 per capita. That kind of poverty cannot pay off that kind of debt.

Mwalimu Nyerere (1999)

1 Introduction: the ugly side of debt, global concerns and build-up to new hopes

Excessive (or unsustainable) external indebtedness at the country level is undesired for a number of reasons: it crowds out the effects of new aid, it undermines the credibility of policies being pursued, it signals a weak economy while high debt service obligations constrain the country's ability to pursue development programmes and it curtails social spending, as much needed resources are being diverted into debt servicing.

The plight of countries which have become to be known as the highly indebted poor countries (HIPC), originally 41 in number (of which 33, or 80 per cent are in Africa) has dominated global debates since September 1996 when the IMF/World Bank-initiated HIPC Initiative was put in place. The HIPC Initiative was to be as a novel proposal to complement traditional debt relief arrangements which were thought to be insufficient. The debt burden of these countries has become the concern of not only economics or politics, but also of the civil society. Increased pressure to refine the original HIPC programme led to the Enhanced HIPC Initiative (HIPC II) with less onerous conditions and more accommodating definitions such as the ratio of debt to exports of 150 per cent or more versus the 200-250 per cent stipulated in the original programme. One of the outcomes of this refinement was a rapid growth in the number of qualifiers. For example, between 1996 and 1998 only two countries (Bolivia and Uganda) had qualified, but by year 2000-end, a further 20 countries had qualified with 'decision point' status. The HIPC Initiative also brought 'new hope'—as a condition for eligibility, the IMF and World Bank require that countries craft national development policies into a form of poverty reduction strategy papers (PRSPs) to ensure that money 'saved' from the relief would be spent on social services. In many HIPCs where economic literacy is low, the relief has been misconstrued to mean cancellation and politicians are reaping dividends.

HIPC II has not been spared criticism from the civil society and some quarters within debtor countries that the effort is still insufficient to address the debt burden. What is the truth?

This paper attempts an assessment of the HIPC initiative framework in addressing the external debt concerns of Tanzania, a country which has reached decision point (April 2000) but not completion point yet (probably by 2001-end). The attempt is made against the backdrop of poverty reduction priority by both the country and the initiative, with a view to assessing the likelihood of meeting poverty reduction targets.

The paper is organized into six sections, including the brief introduction. Section 2 presents a brief profile of the debt problem in Tanzania while section 3 presents the cost of debt servicing to the economy. Section 4 surveys pre-HIPC initiatives to address the debt burden. Cost-benefit considerations are the subject of section five while the last section being devoted to concluding remarks.

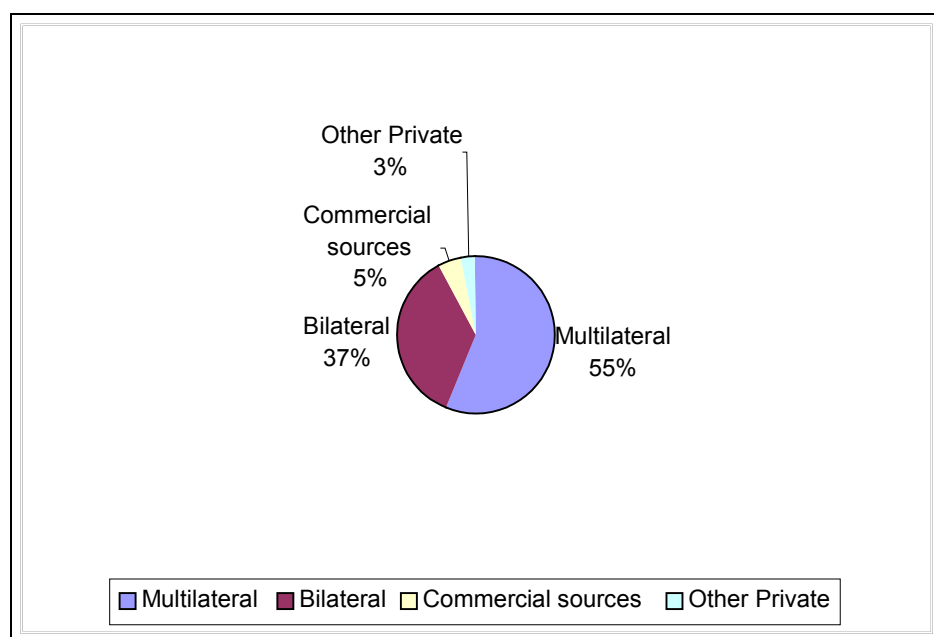
2 The debt profile of Tanzania

In this section we present Tanzania's debt profile,¹ with section 2.1 detailing the current status and section 2.2 reviews its evolution over time.

2.1 Current status of Tanzania's external debt

As of May 2001 (latest available data) total external debt stock stood at US\$ 7,508.3 million, being disbursed outstanding debt plus interest arrears. Interest arrears alone stood at US\$ 1,142.5 million. The total debt stock is close to 100 per cent of GDP and 11 times annual exports. This compares unfavourable to for example 1970 when the debt stock was only US\$ 196 million (16.8 per cent of GDP and 58.6 per cent of exports). Between 1970 and 2000 the debt stock grew by 45 times from US\$ 8.8 billion.

Figure 1
Tanzania's external debt by creditor category



¹The discussion will only centre on external debt. Domestic debt, as of May 2001 stood at TShs 23.5 billion (approximately US\$ 0.03 billion), being principal and interest.

Figure 2
Tanzania's external debt by borrower category

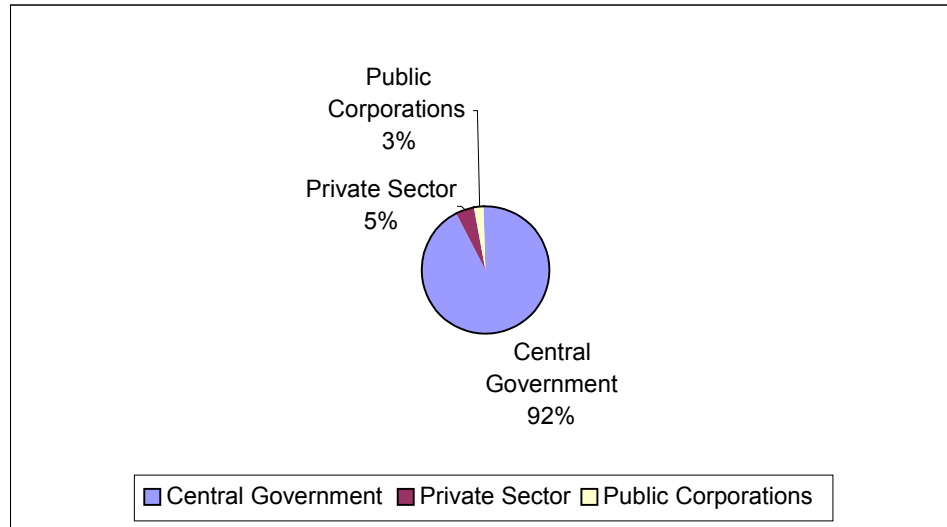


Table 1
Outstanding debt by economic sectors in Tanzania, May 2001

| | % |
|----------------------------------|------|
| Balance-of-payments support | 24.4 |
| Transport and telecommunications | 16.3 |
| Agriculture | 15.7 |
| Energy and mining | 12.9 |
| Industry | 6.5 |
| Social welfare and education | 5.1 |
| Finance and insurance | 2.1 |
| Tourism | 1.3 |
| Other sectors | 15.7 |

Source: Bank of Tanzania (2001).

Debt owed to multilateral creditors made up 55.8 per cent while bilateral debt 36.5 per cent. Commercial sources and other private creditors accounted for 4.9 per cent and 2.8 per cent, respectively. The largest borrower is the central government, accounting for 92.6 per cent of the total disbursed outstanding debt, followed by the private sector (4.7 per cent) and public corporations (2.7 per cent).

The structure of debt by economic sectors is shown in Table 1. This structure has remained more or less unchanged since the country started experiencing difficulties in servicing its debt (Mjema and Kilindo 2001).

During May 2001, no new loans were contracted by the government. Disbursements amounted to US\$ 19.8 million while debt service payments claimed US\$ 20.1 million leading to a net outflow of US\$ 0.3 million. In the first closing of debt buy-back scheme on 6th June 2001, US\$ 155.7 million were retired, being principal and interest.

The structure of Tanzania's external debt shows two distinct features which need to be highlighted here. First, the large size of the balance-of-payments support shows

that the country has foreign exchange problems. This is the category of borrowing to cater for the import bill and to cover government deficit. Agriculture, the leading foreign exchange earner and main source of GDP (see Appendix 1) was third in the priority list. Second, the government, being such a large borrower (in relation to the private sector indicates control of economic activities by the government.

2.2 Evolution of external debt burden over time

Table 2 shows the evolution of external debt for the past three decades comparing its growth rate with that of gross domestic product (GDP), exports and imports.

A casual observation of long-term trends of debt and GDP growth rates shows a high rate of debt from 1971 to 1980 associated with a relatively low GDP growth. The subperiod 1981-84 shows even much lower GDP growth rates, whereas GDP growth

Table 2
Growth rate of debt, exports, imports and GDP in Tanzania, 1970-2000

| Year | Growth rates (%) of | | | |
|------|---------------------|---------|---------|------|
| | Debt | Exports | Imports | GDP |
| 1970 | - | 0.5 | 30.5 | 5.6 |
| 1971 | 22.9 | 1.7 | 4.3 | 4.1 |
| 1972 | 22.9 | 9.3 | 5.8 | 6.7 |
| 1973 | 26.8 | 1.3 | 9.9 | 3.0 |
| 1974 | 43.1 | -5.9 | 28.8 | 2.5 |
| 1975 | 29.5 | -23.2 | -15.7 | 9.4 |
| 1976 | 42.0 | 26.9 | -12.1 | 2.9 |
| 1977 | 32.7 | 5.5 | 3.1 | 0.3 |
| 1978 | 12.1 | -27.4 | 27.7 | 2.1 |
| 1979 | 10.0 | 6.9 | -9.3 | 2.4 |
| 1980 | 12.7 | -28.6 | -12.7 | 4.5 |
| 1981 | 7.6 | -9.9 | -18.6 | 0.0 |
| 1982 | 9.3 | -32.3 | -33.2 | 0.5 |
| 1983 | 10.6 | -20.8 | 16.0 | -2.3 |
| 1984 | 2.9 | 7.0 | -4.0 | 3.3 |
| 1985 | 13.0 | -24.7 | 47.5 | 4.5 |
| 1986 | 14.0 | 36.2 | 73.6 | 1.8 |
| 1987 | 19.7 | 34.8 | 15.0 | 4.9 |
| 1988 | 5.1 | 29.1 | 0.0 | 4.0 |
| 1989 | -1.0 | 42.8 | 37.7 | 3.9 |
| 1990 | 14.5 | 2.4 | 5.0 | 5.0 |
| 1991 | 17.0 | 5.3 | 8.3 | 6.0 |
| 1992 | 1.7 | 10.1 | -7.5 | 4.0 |
| 1993 | 1.6 | 34.0 | 19.5 | 4.0 |
| 1994 | 7.9 | 25.0 | -0.1 | 3.0 |
| 1995 | 5.3 | 35.0 | 18.1 | 3.6 |
| 1996 | -5.9 | 2.8 | -5.2 | 4.5 |
| 1997 | -1.1 | -4.2 | -4.0 | 3.5 |
| 1998 | 3.0 | -9.7 | 20.9 | 4.0 |
| 1999 | 11.0 | 5.0 | 3.0 | 4.7 |
| 2000 | 8.6 | 21.8 | -2.4 | 4.9 |

rate is relatively high and stable after 1986, the year of adopting ‘true’ reforms while growth rate of debt has been fluctuating. It should be pointed out that because of the small base of exports, they have not been able to offset both debt and import growth rates.

2.3 Factors explaining debt accumulation in Tanzania

There is general agreement that difficulties in meeting external debt service obligations result from both external and domestic factors (Kilindo 1993; BOT 1995; URT 1999; Boote and Thugge 1999). These are detailed below.

2.3.1 Domestic factors

Domestic factors include:

- Bad policies pursued in the past by the government that contributed to excessive growth of aggregate demand unmatched by increased production (BOT 1995) (excessive emphasis on industry at the expense of agriculture, fast growing administration, the fastest in the 1970s), etc.
- Inappropriate macroeconomic policies (fiscal imprudence, mismanagement of exchange rate and currency composition);
- Economic mismanagement (consumptive spending, lack of accountability); and
- Lack of prudent debt management policies (no proper policy and institutional framework, low negotiating and analytical capacity, low commitment to debt issues, etc.). Even the national debt strategy for external debt which became operational in 1998/99 is weak with regard to legal framework and coordination.

2.3.2 External factors

The combination of external factors involved elements such as:

- Lending policies of creditors, e.g. short repayment periods;
- External shocks (1973/4 and 1979/0 oil price increases, worsening terms of trade since the mid-1970s, break-up of the East African community in 1977, war with Idi Amin’s Uganda in 1978 which cost the equivalent of a year’s exports in direct war-related expenses, adverse weather conditions such as droughts, floods);
- General decline in donor financing in the early 1990s; and
- Increasing interest rate in proportion to concessional debt (for loans with variable interest rates) especially after 1986.

The interplay of these factors made Tanzania unable to meet fully its debt servicing obligations. Boote and Thugge (1999) show Tanzania’s ‘default’ rate to be as high as around 70 per cent between 1990 and 1994, while Danielson and Mjema (2001) show an average default rate of 55 per cent between 1994 and year 2000.

3 The cost of debt servicing to Tanzania's economy

This section presents a brief overview of Tanzania's debt burden. The discussion centres on the 1990s which represent years of 'staying the course' of reforms. Comparison of debt service (expenditures) is made against total government spending, exports and social spending.

3.1 Debt service compared to total expenditure and exports

Table 3 shows actual expenditures on debt service as proportion of exports and total government recurrent spending. Highest proportions are experienced between 1990/1 and 1993/4 with respect to exports while in comparison to total government recurrent expenditure the average has exceeded 20 per cent for most years.

Table 3
Debt service compared with government spending and exports in Tanzania, 1990-2001 (%)

| | Debt service compared to | |
|-----------|--------------------------|-------------------------------|
| | Exports | Government recurrent spending |
| 1990/1 | 22.7 | 19.1 |
| 1991/2 | 28.9 | 23.4 |
| 1992/3 | 40.9 | 22.4 |
| 1993/4 | 28.0 | 26.7 |
| 1994/5 | 19.1 | 20.8 |
| 1995/6 | 23.2 | 25.2 |
| 1996/7 | 17.7 | 18.6 |
| 1997/8 | 16.7 | 27.0 |
| 1998/9 | 17.8 | 23.2 |
| 1999/2000 | 14.9 | 23.2 |
| 2000/01 | na | 25.6 |

Source: BOT (1996) and computations from URT (2001b).

3.2 Debt service as multiple of social spending

A comparison of government recurrent expenditure on education and health, for example, reveals the extent of 'deprivation' is shown in Table 4.

Table 4
Debt service expenditure as multiple of social spending in Tanzania, 1990-2000

| | Health | Education |
|-----------|--------|-----------|
| 1990/1 | 3.9 | 2.8 |
| 1991/ | 3.8 | 3 |
| 1992/3 | 3.8 | 3.2 |
| 1993/4 | 3.7 | 3.5 |
| 1994/5 | 3.3 | 2.8 |
| 1995/6 | 6.8 | 3.7 |
| 1996/7 | 5.4 | 4.6 |
| 1997/8 | 4.6 | 3.8 |
| 1998/99 | 4.4 | 1.7 |
| 1999/2000 | 4.4 | 1.7 |

Source: Computations from URT (2001b).

Table 4 reveals that debt servicing claimed more of the government's recurrent expenditure than spending for both education and health throughout the period 1990-2000. Highest multiples are experienced between 1996/7 and 1998/9. Given the situation in social services and poverty in general (see appendix 2), such a pattern 'is a violation of fundamental human rights'(Ecumenical Coalition for Economic Justice 2001) since scarce resources are sacrificed to debt payments instead of meeting the basic needs of the people. Vandemoortele (2001: 45) describes the commitment of the governments in Sub-Saharan Africa:

... governments spend about twice as much to comply with their financial commitments vis-a-vis external creditors than to comply with their social obligations vis-a-vis the people. To spend more on external debt than on basic social services-when tens of millions of children lack access to basic education, primary health, adequate food and safe drinking water—is not only morally wrong, it is poor economics.

Tanzania is spending more than four times!

URT (1999) simulates the effect of a 10-per cent cap on government revenue going to external debt service would mean in terms of savings and social impact: (i) doubling primary education recurrent budget; (ii) doubling primary health care recurrent budget; and (iii) increasing gross enrolment in primary education by 15 per cent. These are by no means small impacts. Next, we look at the build-up to the HIPC eligibility.

4 Tanzania's build up to the HIPC process and consequent 'cost'

Since the adoption of the economic recovery programme in 1986, Tanzania has stayed on the course of reforms, pursuing strong economic adjustment policies and good governance. With a good track record, and having policies in place that promote sustainable growth and aim at poverty eradication, the country became eligible for HIPC relief on 4 April 2000. This section addresses issues that relate to external debt and discusses the sacrifices Tanzania had to make to reach this path.

4.1 Early attempts to address the external debt burden in Tanzania

Tanzania has participated in all global debt reduction initiatives as well as home-grown schemes.

Global initiatives:

- The Baker Plan (initiated in 1985) for rescheduling debts. No benefits for Tanzania, save for postponing the crisis;
- The Brady Plan (1989) for the cancellation of debts. No tangible achievements for Tanzania;

- Bilateral debt relief initiatives: Tanzania has actively used these initiatives since the debt crisis unfolded in the mid 1970s. As a result of such efforts, US\$ 1,044 million in debt was cancelled between 1978 and 1997;
- Paris Club Debt Relief for rescheduling and cancellation: After participating five times, Tanzania realized a debt cancellation worth US\$ 594.9 million and debt rescheduling worth US\$ 2.105 billion.

‘Home-grown’ initiatives:

- Debt conversion programme (DCP): In 1990 Tanzania opted for a limited DCP. By 1993 debts worth US\$ 182.0 million had been converted and proceeds reinvested, but on grounds of fuelling inflation, the scheme was terminated;
- Debt buy-back scheme: This replaced the DCP. Upon reinstatement of IMF enhanced structural adjustment facility (ESAF) in November 1996 (after suspension between 1994/5 and 1995/6) debts worth US\$ 253 million were subjected under this scheme;
- Poverty reduction balance support (PRBS): The genesis of this facility can be traced to an earlier facility, the multilateral debt relief fund (MDF) which became operational in 1997 with counterpart funds targeted to education and health sectors. By the end of year 2000, contributions had reached US\$ 120 million, from Denmark, Finland, Ireland, UK, Netherlands, Norway, Sweden and Switzerland. The poverty reduction balance support is more flexible than MDF, is independent of debt service obligations and is supportive of the government’s poverty reduction strategies.

4.2 The HIPC relief and Tanzania’s chase for completion point

Earlier arrangements on easing Tanzania’s debt burden were insufficient in volume (compared to the debt size) and excluded the multilateral component which has been quite significant in Tanzania, making up for example 55.8 per cent of total debt in May 2001. The HIPC Initiative was thus much welcome for raising the prospect of cancelling multilateral debt. For details of the initiative, see for example Boote and Thugge (1999) and UNRISD (2000).

Upon satisfactory fulfilment of all attendant conditions, Tanzania is expected to benefit through the various relief measures, as detailed below.

4.2.1. Additional resources:

- Interim relief from the IMF and World Bank during 1999/2000 of about US\$ 0.01 billion;
- Phase I (2001-2003) IMF US\$ 17.97 million and IDA (World Bank) US\$ 37.5 million;
- Phase II (final decision point after fulfilling the conditions in Phase I) IMF US\$ 152 million in total for next ten years and IDA US\$ 1.2 billion in total for next twenty years.

This brings a total of US\$ 100 million annually from the multilateral creditors.

4.2.2 'Smaller' debt and 'lighter' debt service burden:

The outlook of the debt burden is presented in Table 5.

Table 5
Implications of HIPC debt relief to Tanzania 2000/01 to 2006/07 (US\$)

| | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|------------------------------|---------|---------|---------|---------|---------|---------|---------|
| NPV before rescheduling | | | | | | | |
| US\$ billion | 4.8 | 4.9 | 5.1 | 5.2 | 5.4 | 5.6 | 5.8 |
| NPV after HIPC, US\$ billion | 2.7 | 2.4 | 2.6 | 2.8 | 3.0 | 3.3 | 3.5 |
| Gain US\$ billion | 2.1 | 2.5 | 2.5 | 2.4 | 2.4 | 2.3 | 2.3 |
| Debt service ratio | | | | | | | |
| After HIPC, US\$ million | 11.9 | 9.5 | 8.4 | 7.8 | 7.3 | 7.0 | 7.0 |
| Of which multilateral | 4.7 | 2.7 | 2.0 | 2.7 | 3.0 | 2.7 | 2.3 |
| Before HIPC | 24.6 | 20.9 | 25.6 | 13.7 | 12.5 | - | - |

Source: Bank of Tanzania.

4.2.3 Good gesture from bilateral creditors

By reaching the completion point bilateral creditors are also expected to make more concessions.

4.3 The cost of HIPC qualification

In the process of eligibility, Tanzania has had to bear the following costs:

- Producing the poverty reduction strategy paper (PRSP) when the national poverty eradication strategy (NPES) was already in place. By all definitions NPES is more comprehensive. The process that guided NPES (1999) was replicated by PRSP (2000) with only one year apart with an interim report, zonal workshops, etc. Resources used in PRSP preparation (at around US\$ 0.3 million) could have gone a long way towards funding social services, e.g. enough to pay for costs of 5,000 primary school pupils;
- The long negotiation process, taxing both the financial and human capacity time-wise;
- More allocation to debt service, more to social spending, crowding out productive sectors as completion point is being chased;
- An analysis of monthly allocation of recurrent expenditure in the critical period (after decision point) shows an increased allocation to debt service and social services at the expense of productive sectors. For example, comparing July 2000 and July 2001 expenditures on external debt service shows that they rose from 12.5 per cent of monthly recurrent expenditure to 20.2 per cent. The corresponding ratios for social services are 10.2 per cent and 34.2 per cent, respectively, bringing a net 'crowding-out of other sectors by 31.7 per cent with the productive and economic services sectors experiencing a fall of about 7 per cent (administration and security by 14 per cent);

- Other costs: These include indirect costs and minor direct costs such as the requirement to publish monthly recurrent expenditures in newspapers;
- The long span between decision point and completion point: Uganda reached completion point within 12 months. A long wait breeds uncertainties and probable excessive austerity to show allegiance to the benchmarks. The relief has to be accelerated.

5 HIPC: too little too late

In this section we make a brief assessment of the HIPC relief. First we compare the expected relief with what it actually translates to, then we compare the relief with necessary expenditures in meeting poverty reduction strategies while the last looks at the timing of the relief.

5.1 Expected HIPC relief versus actual relief (net relief)

Table 6 compares pre-HIPC and post HIPC Initiative external debt service in Tanzania. The information in Table 6 needs to be complemented with what Tanzania has been able to pay in the past. Between 1995/6 and 2000/01, Tanzania paid an average of US\$ 208.5 million annually (equivalent to 45 per cent of required servicing of US\$ 623.3 million annually). With HIPC relief (2001/02 to 2004/05) Tanzania will pay an annual average of US\$ 155 million, showing a relief of US\$ 468.3 million annually. However since Tanzania was paying US\$ 208.5 million annually, the actual relief is the difference (US\$ 468.3 million less US\$ 208.5 million) which yields US\$ 259.8 million only instead of the drummed-up US\$ 468.3 million. It is thus little compared to what it is believed to be.

The question that remains is what happens after the HIPC relief has been delivered, i.e., what is likely to become of the nice projections based on good performance? As Danielson and Mjema (2001) point out, Tanzania's need for exceptional financing will not disappear despite the HIPC relief. Future projections (IMF/IDA) as cited in Danielson and Mjema (2001) show higher debt servicing obligations after 2010 than what Tanzania paid before the HIPC relief!

Table 6
External debt service in Tanzania, 1995-2018

| | Pre-HIPC | | | | | | HIPC | | | |
|-----------|----------|--------|--------|--------|-----------|---------|---------|---------|---------|---------|
| | 1995/6 | 1996/7 | 1997/8 | 1998/9 | 1999/2000 | 2000/01 | 2001/02 | 2002/03 | 2004/05 | 2010-18 |
| Principal | 109 | 127 | 134 | 162 | 131 | 156 | | | | |
| Interest | 64 | 88 | 84 | 97 | 48 | 51 | | | | |
| Total | 173 | 215 | 218 | 259 | 179 | 207 | 143 | 146 | 155 | 258 |

Sources: Bank of Tanzania (official documents), and informed projections.

5.2 HIPC relief versus meeting international development targets in Tanzania

Tanzania is party to various international development targets. These have been mainstreamed in Tanzania's policy and strategy documents (National Poverty Eradication Strategy, Long-Term Vision 2025, Poverty Reduction Strategy Paper (Mainland); Vision 2020 and Zanzibar Poverty Reduction Plan (Zanzibar)), to cite a few of the targets: universal primary education by 2015; halving absolute poverty by 2015, etc. Let us, take the target of universal primary education, for example. ILO/UNCTAD (2000) point to the fact that Tanzania is off-trajectory to achieving this target. UNESCO (2001) points out that Tanzania has to increase net enrolment by nearly 47 per cent (or 3 per cent per annum approximately) if it is to reach this target. By 2000 net enrolment was at 57.1 per cent. The country has to increase classrooms, learning and teaching materials teachers, etc.

The task involves 'returning' Tanzania to the trajectory and sustaining funding levels. Estimates of primary enrolment (2000) stand at 4.5 million pupils. A 3 per cent annual increase translates to 135,000 pupils. A decision to double primary enrolment in a year, for example, requires at a very conservative estimate, T.Shs.156 billion over 1998/99 base. This is equivalent to 57 per cent of the HIPC relief, which is also needed to meet the requirements of priority items in health, water, rural roads, agricultural research and extension, HIV/AIDS, etc. (Poverty Reduction Strategy Paper 2000), thus indicating that the *relief is too little to meet poverty reduction targets*.

5.3 HIPC initiative in terms of timing

In order to assess the timing of the initiative, one needs to look at the internationally recommended debt sustainability levels. These include a debt to GDP ratio of no more than 50 per cent. For Tanzania, this threshold was crossed in year 1983 and the 100 per cent mark in 1987 (Danielson and Mjema 1996), thus proving that *relief has come too late*.

6 Concluding remarks

The HIPC Initiative brought hope to many LDCs suffering from the debt burden. Perhaps awareness and sensitization have not done enough to expose the hope as false. The initiative basically enhances the capacity of qualifying countries to reduce poverty by their own means. HIPC relief is not a panacea for all the ills of the poor countries—let alone the external debt burden. It remains what it is: a temporary relief measure that merely postpones the problem. Countries should not put all their eggs in the HIPC basket, but should rather pursue vigorously pro-poor growth, aggressive export drive, etc.

The analysis of Tanzania has shown its most acute problem—setting aside current expenditure funds, on a monthly basis, for external debt servicing. This is what the initiative should also consider in the equation of debt-servicing burden, ie. threshold levels, given the low revenue generation capacity of the country (see appendix 1). Given that the HIPC relief is too little and comes too late, should not the international

community coin a more effective instrument—such as substantial debt cancellation—instead of the concept of relief which has dominated development thinking for close to two decades without any tangible effect on the debt burden of developing countries, especially the least developed?

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Appendix 1: Selected macroeconomic indicators in Tanzania, 2000

| | |
|--------------------------------------------------|-------|
| Population, millions | 31.9 |
| GDP per capita, US\$ | 270.0 |
| Real GDP growth, % | 4.9 |
| Degree of openness, % | 26.7 |
| Agricultural GDP (real), % | 48.2 |
| Industrial GDP (broad definition), % | 16.9 |
| Manufacturing GDP (real), % | 8.3 |
| Inflation rate, % | 6.0 |
| Gross domestic savings/GDP, % | 2.2 |
| Gross domestic investments/GDP, % | 15.5 |
| Foreign reserves, weeks of imports | 18 |
| Government revenue/GDP, % | 13.1 |
| Government recurrent expenditure/GDP, % | 14.4 |
| Development expenditure/GDP, % | 4.9 |
| Debt indicators | |
| External debt/GDP, % | 100+ |
| External debt/exports, % | 1100 |
| Per capita debt/per capita income, % | 102 |
| Debt service/exports of goods and services, % | 14.9 |
| Debt service/government recurrent expenditure, % | 25.6 |

Sources: Various, as given in the references.

Appendix 2: Selected poverty indicators in Tanzania, 1999/2000

| | |
|------------------------------------------------------------|------|
| Portion of population living on less than US\$1 a day, % | 43 |
| Proportion of under-5 children underweight, % | 29.4 |
| Under-5 mortality rate per 1,000 live births | 161 |
| Maternal mortality rate per 100,000 live births | 529 |
| Net primary school enrolment, % | 57.1 |
| Proportion of population using piped water for drinking, % | 65.7 |
| Life expectancy, years | 48 |
| Human development index rank | 157 |
| Female illiteracy rate, % | 45.7 |
| Male illiteracy rate, % | 21.2 |
| Infant mortality per 1,000 live births | 99 |

Sources: Data collected from various sources, including UNDP (2000); UN (2001), and Mbelle (2001).