

The Fifth Debt Management Facility (DMF) Stakeholders' Forum:

Debt Management Strategy and Legal Framework: Tanzania Experience

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Outline

- Over view of Debt Management in Tanzania
- Debt management objectives -National Debt Strategy
- Authority and purpose to borrow
- Borrowing Procedures
- Institutional and Legal Framework for Debt Management in Tanzania
- Relationship between Debt management and Budget
- Preparation of Medium Term Debt Strategy
- Approval process for the strategy.

Overview of Debt Management in Tanzania

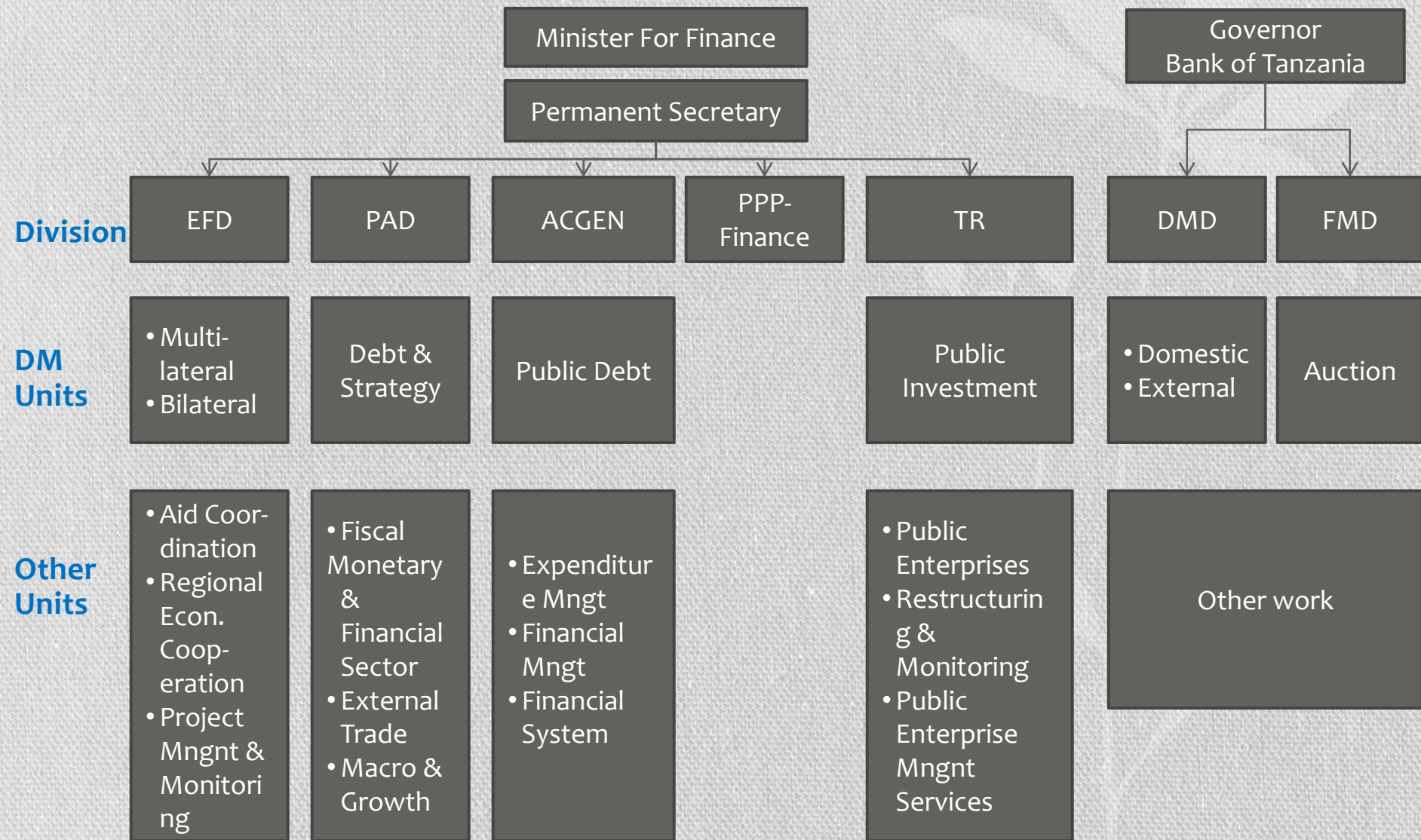
- DM in Tanzania is guided by Government Loans, Guarantees and Grants Act No. 30 of 1974 as amended in 2004 and the NDS in 2002.
- The Gvt published its First External Debt Strategy in March 1999 in the context of the launch of the HIPC initiative.
- Reaching Completion Point in November 2001 the Gvt published NDS 2002.



Institutional Arrangement of Debt Management in Tanzania

- The Debt management operations in Tanzania has been provided in the NDS 2002 and GLGGA are fragmented under 5 Heads of Departments (at the MOF) plus 2 Directors at the Bank of Tanzania.
- This structures reflect past legacy whereby government borrowing was restricted from concessional sources (only IDA terms) where concessionality level initially were set at 50% and later reduced to 35%

Current DM Operations



NDMC and TDMC coordinates debt management operations.

Objectives of Debt management

The objectives stated in the Government Loans, Guarantees and Grants Act No. 30 of 1974 as amended in 2004

- **Primary objectives are:-**

- (i) to ensure the financing needs of the Government are met
- (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.



Authority and Purpose of borrowing

Under the GLGGA, the Minister for Finance is vested with exclusive powers to raise **foreign** and **local** loans, to issue guarantees and receive grants for and on behalf of the Government of the United Republic of Tanzania (URT)

The purposes for which the borrowing is categorically stated that shall be on strategic investment and priority areas only (this is stipulated in the GLGGA)

- **Reporting and evaluation**

GLGGA provides the Minister for Finance with the responsibility of reporting the following to the Parliament:

- a) An annual Debt Strategy and borrowing Plan
- b) A debt strategy implementation plan on a quarterly basis
- c) A debt and budget execution reports

Legal requirement

- Government Debt Management Act Legislation is a key component of the governance framework relating to government debt management.
- Good legislation underpins sound debt management as it provides strategic direction, defines and clarifies powers and supports professionalism and operational focus.
- It also limits potential abuses of power and promotes good governance by establishing the accountabilities for managing the government's debt liabilities.



Relationship between Debt and Budget



The Mandate To Develop A Debt Management Strategy Is Required By Law

Section 25, Part VI of the *Government Loans, Guarantees and Grants Act 2003* requires the Minister to have an annual debt strategy and borrowing plan prepared and approved by the Government. Section 32, Part VII states that the authority conferred upon the Minister to borrow on behalf of the state shall be exercised in line with the debt management objectives set out in the National Debt Strategy.

Tanzania Budget frame for 2013/14 & MTDS

Revenue		Shillings Million	
A.	Domestic Revenue		11,154,071
	(i) Tax Revenue (TRA)	10,412,937	
	(ii) Non Tax Revenue	741,134	
B.	LGAs own Source		383,452
C.	General Budget Support		1,163,131
D.	Foreign Loans and Grants including (MCA (T))		2,692,069
E.	Domestic Borrowing		1,699,860
F.	Non Concessional Borrowing		1,256,400
TOTAL REVENUE			18,248,983
Expenditure			
G.	Recurrent Expenditure		12,574,949
	(i) Consolidated Financial Services	3,319,156	
	(ii) Wages and Salaries	4,763,196	
	(iii) Other charges	4,492,566	
	Ministries	3,738,316	
	Regions	49,701	
	LGAs	704,549	
H.	Development Expenditure		5,674,034
	(i) Local	2,981,965	
	(ii) Foreign	2,692,069	
TOTAL EXPENDITURE			18,248,983

Target of MTDS

Borrowing Procedures



Budget Approval (Parliament)



Sector identify project (within budget)



POPC scrutinize project



Lenders Submit Loan term sheet



Technical Debt Management



National Debt Management Committee



Government Negotiation Team



Technical Debt Management



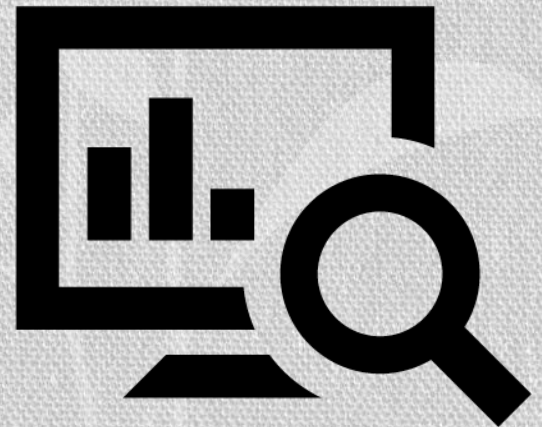
National Debt Management Committee



Minister for Finance

Preparation of Medium Term Debt Strategy

- MTDS is prepared in line with the Medium-Term Expenditure Framework (MTEF) and updated annually (according to the Act).
- All borrowing plan is done inline with PSI arrangement and East African requirements
- The MTDS analysis covered public external and domestic debt (Scope has increased to cover contingent liabilities)



Potential sources of external financing

- **External**

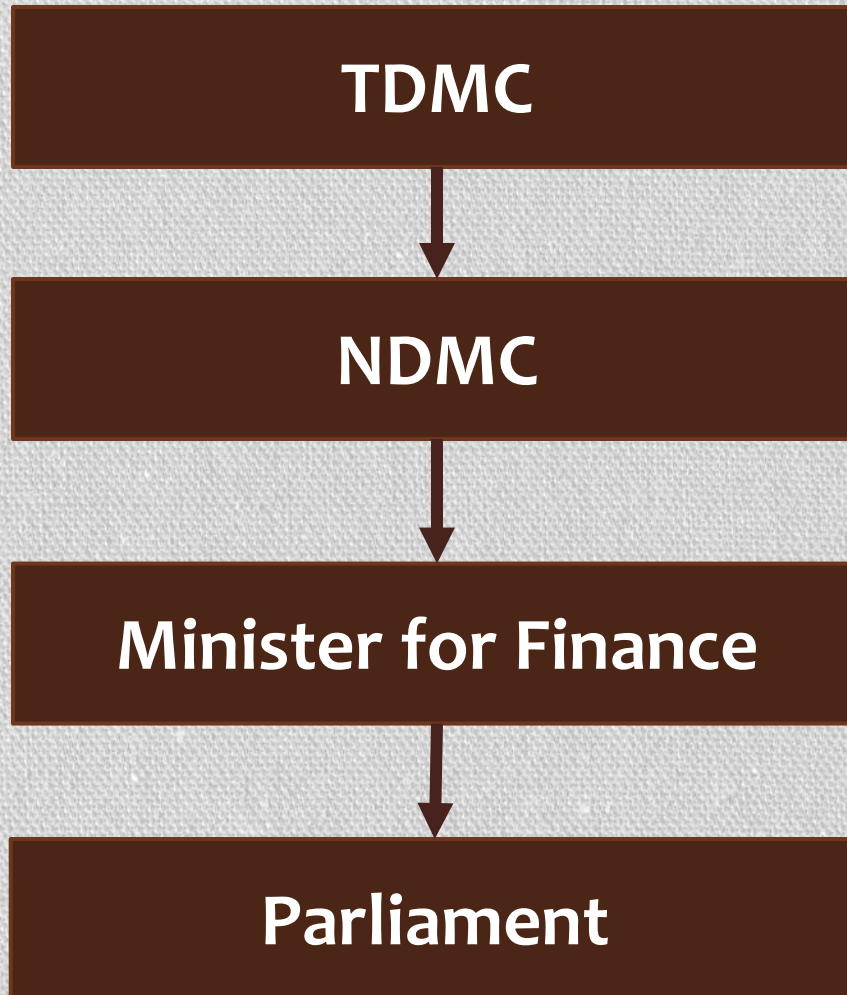
- concessional program and project loans from both multilateral and bilateral
- semi-concessional
- non-concessional financing
- taping the syndicated loan market
- Plan to issue an international sovereign bond to be preceded by country rating
- Guaranteed Commercial bank loans – ECAs

- **Domestic**

- T bills
- 2, 5, 7, 10 and 15year T-bonds



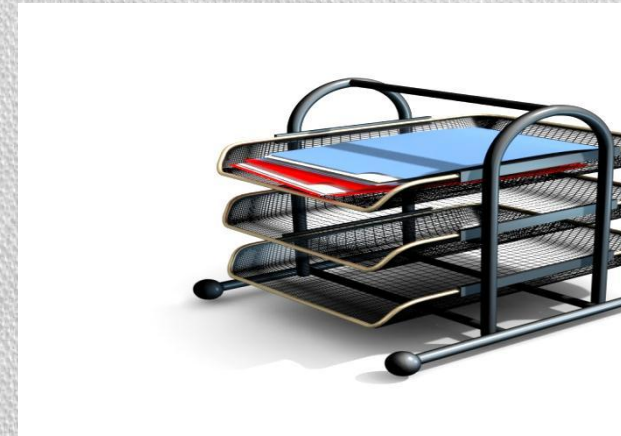
Approval process for the strategy



The Government Loans Guarantees and Grants Act, of 1974 as revised in 2004 sets out the advisory role of the Technical Debt Management Committee (TDMC) and National Debt Management Committee (NDMC).

Reporting and publication of strategy

- Report is published and distributed in hard copy and soft copy.
- MTDS is part of budget preparation and submitted with Budget to the parliament as annual borrowing plan for approval
- Quarterly implementation report showing performance against targets is prepared and published on website
- Semi annual implementation report is prepared and submitted to the cabinet and parliament as part of budget execution



Challenges

- Lack of capacity to prepare and implement strategy
- Current legal framework does not reflecting new financing landscape
- Fragmented institutional set up
- Lack of political will



Institutional Reform

DEBT MANAGEMENT OFFICE

**Front
Office**



**Middle
Office**



**Back
Office**



Institutional structure supported by Proper legal structure

Some success factors

- Entrenched domestication of strategy for ownership
- Leadership, political will, proactive government action, and focused and effective debt management is key
- Strengthen transparency agenda through Advocacy, communication and dissemination
- Institutional responsibilities should be clearly defined
- Continuing capacity building for developing, implementation and monitoring debt strategy



Key Questions

- Is the Strategy framework clear?
- Is debt management objectives clearly defined in the strategy
- Are the borrowing strategy transparent?
- Are reports publicly available for accountability?
- What institutional frameworks would facilitate implantation of debt strategy?
- Do the regulations meet international standards?
- Are borrowing decisions transparent?
- Is borrowing made in line with a sound macro fiscal framework and government budget?
- Is implementation of strategy monitored?
- Is there sufficient capacity to enforce them?





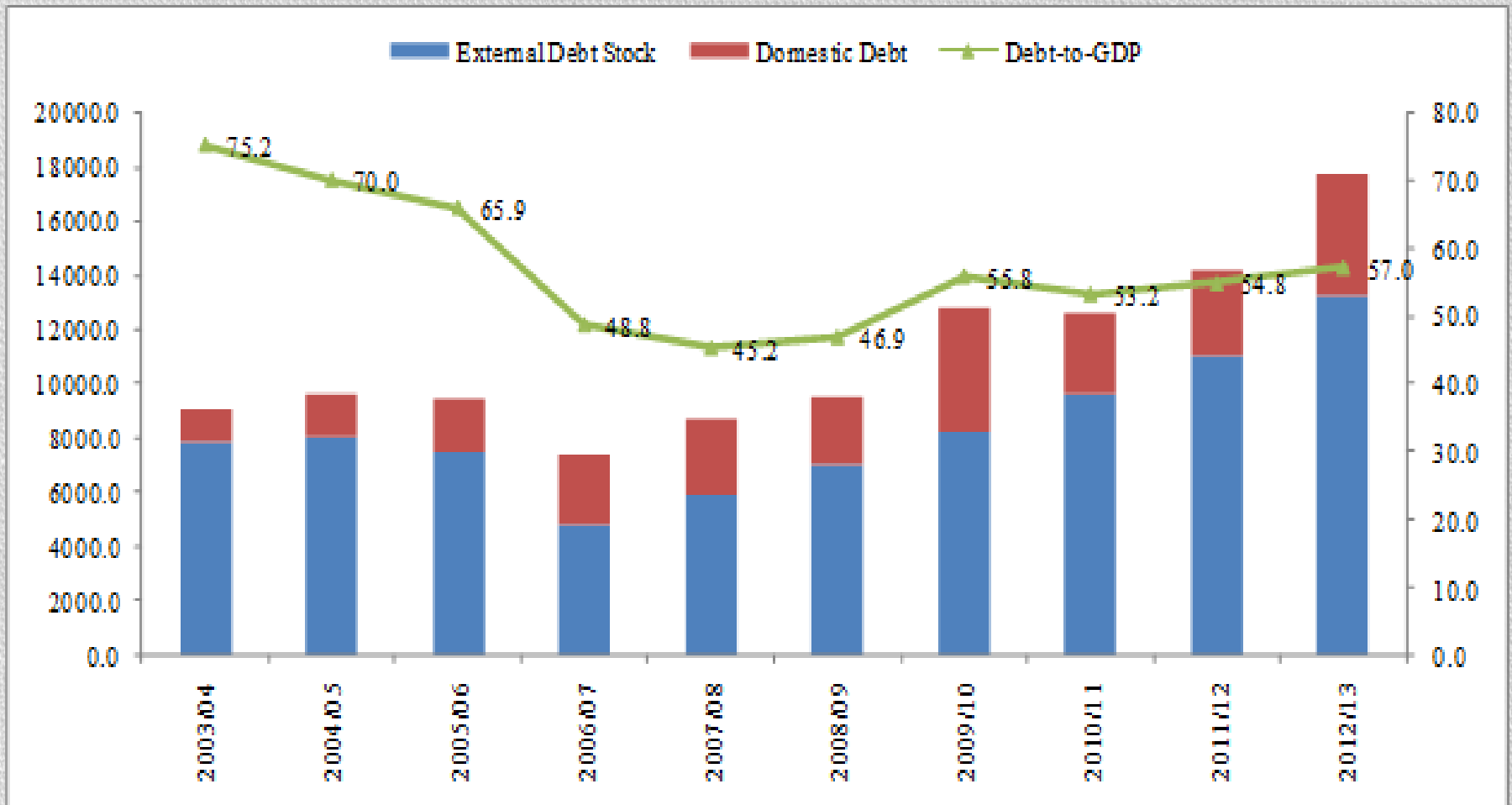
**No proper
legislation
in place to
manage
national
debt**

**No proper
institutions
structure
with
enough
skilled
personnel
to manage
national
debt**

**No proper
use of
borrowed
funds**

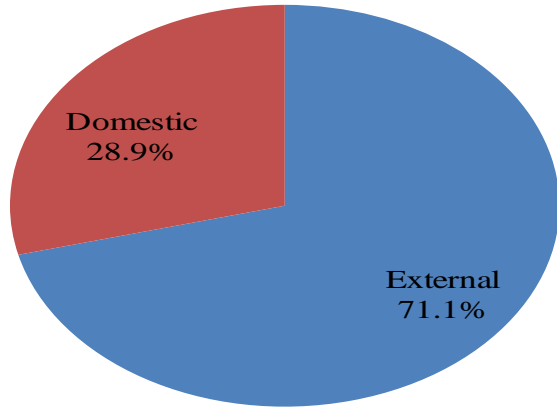


Tanzania's debt stock, at the end of June 2013 reached USD 17,690.5 million

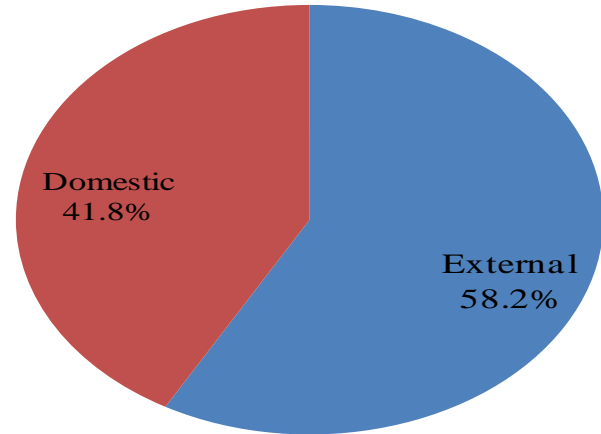


Debt Portfolio

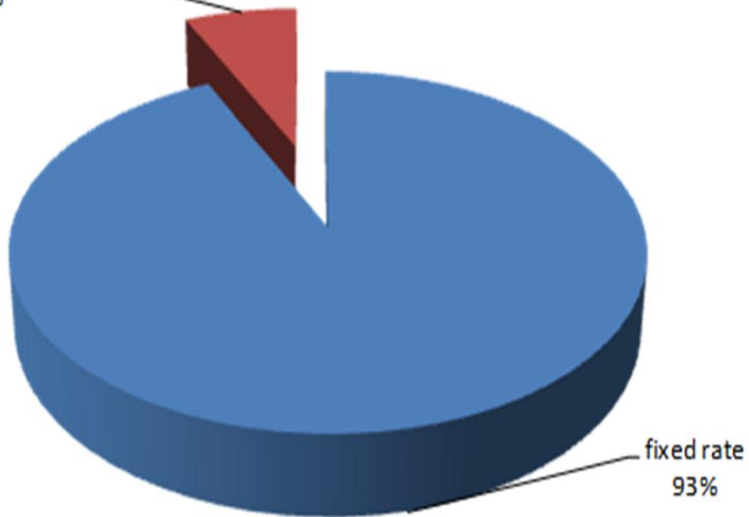
June 2010



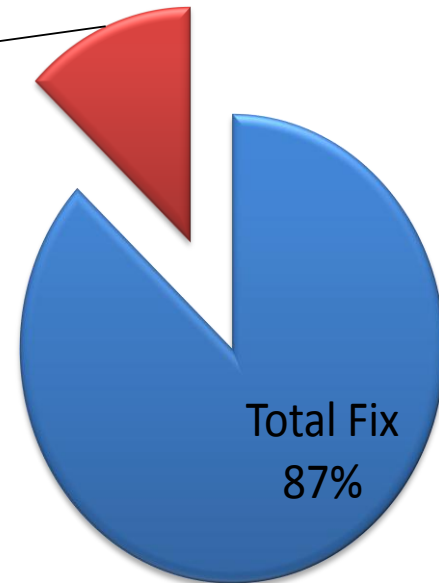
June 2013



variable rate
7%

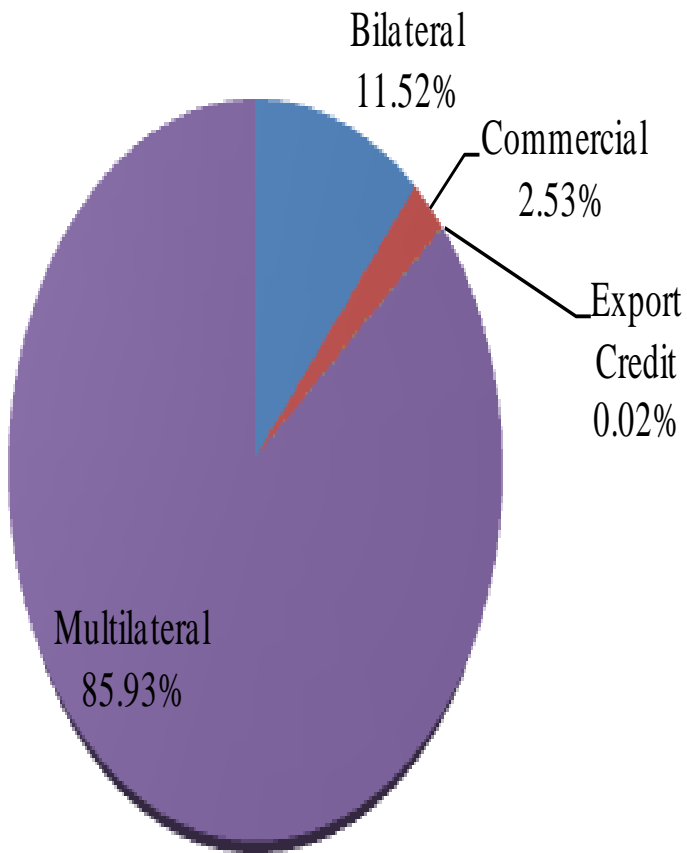


Total
Variable
13%

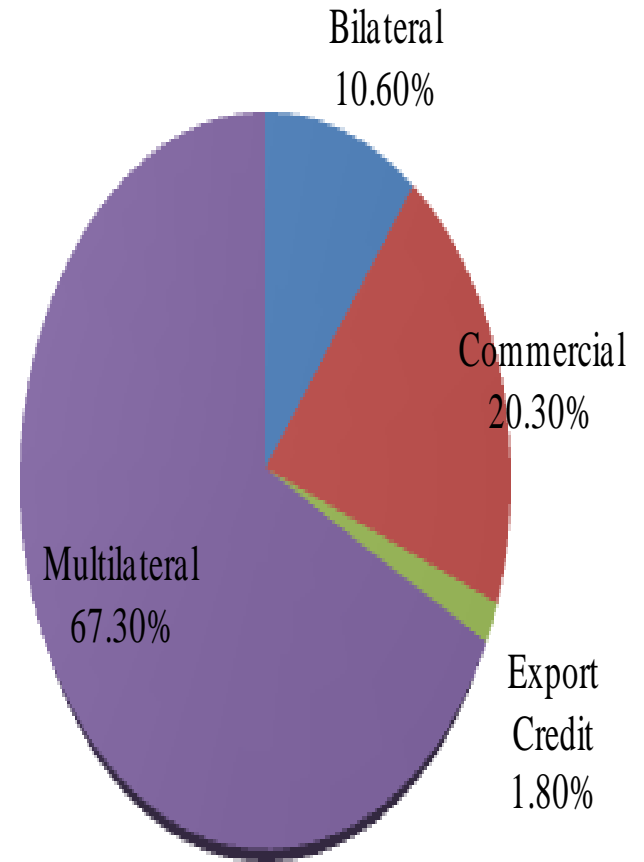


Disbursed Outstanding of External Debt by Creditor

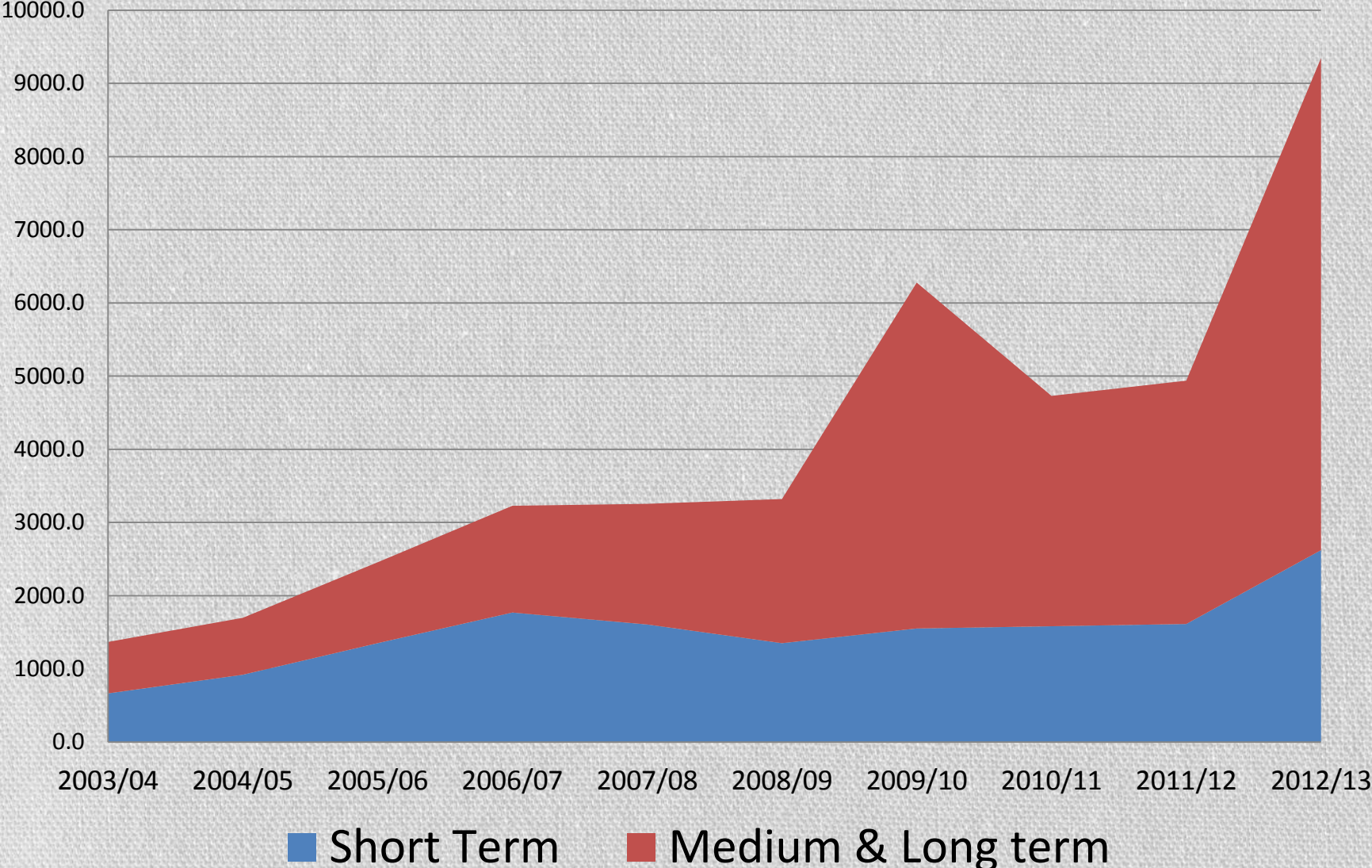
June 2010



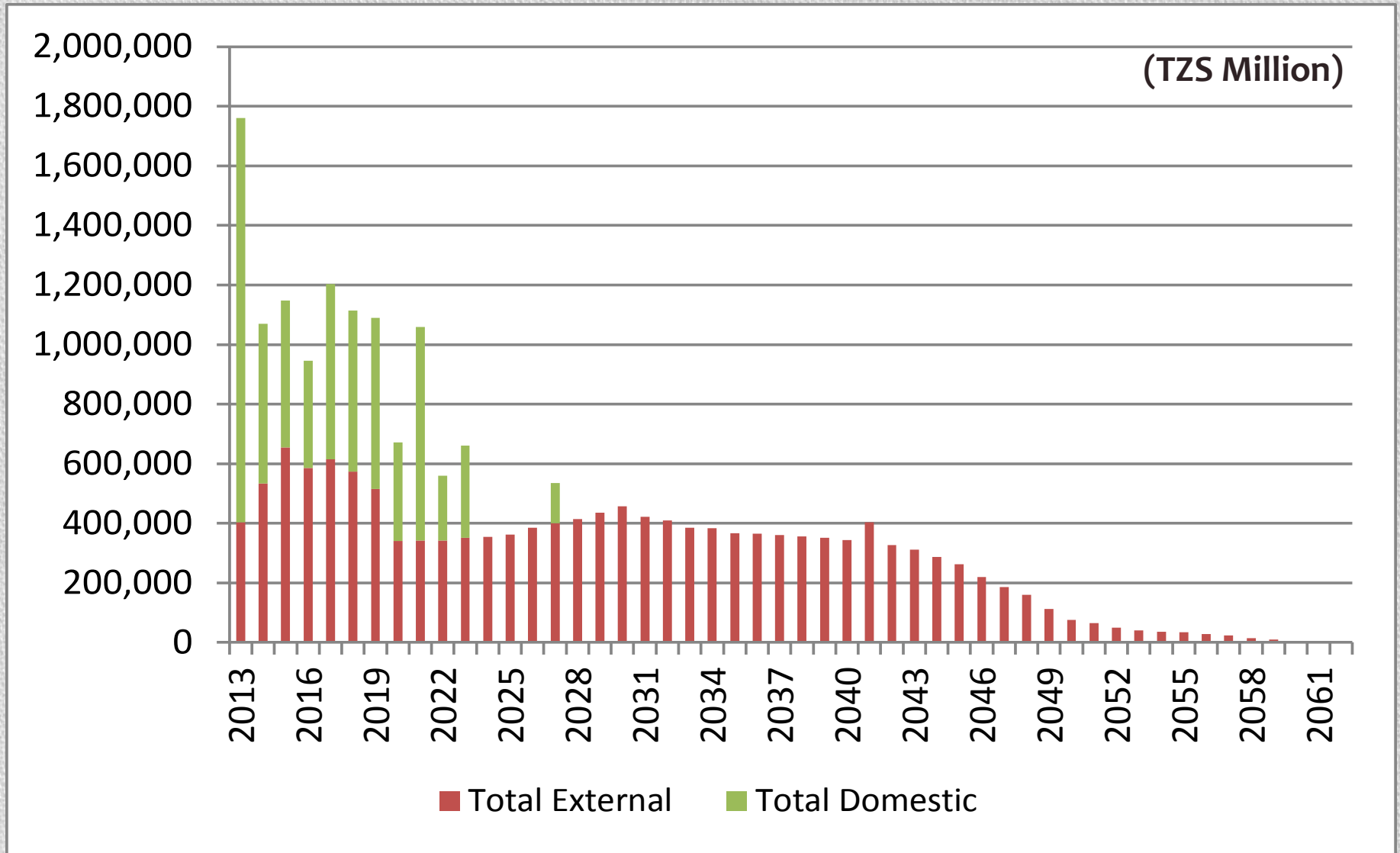
June 2013



Evolution of Domestic Debt Stock



Repayment profile of external and domestic government debt



Summary Of Cost And Risk Indicators For Existing Debt

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of USD)		9,471.0	7,206.0	16,677.0
Nominal debt as % GDP		31.6	24.0	55.6
PV as % of GDP		18.8	24.0	42.8
Cost of debt	Weighted Av. IR (%)	1.5	14.3	7.0
Refinancing risk	ATM (years)	16.6	7.2	12.7
	Debt maturing in 1yr (% of total)	2.8	12.8	7.0
Interest rate risk	ATR (years)	15.8	7.2	12.2
	Debt refixing in 1yr (% of total)	19.8	12.8	16.9
	Fixed rate debt (% of total)	82.0	100.0	89.5
FX risk	FX debt (% of total debt)			56.8
	ST FX debt (% of reserves)			5.8

Financing Strategies



Strategy one (S1): maximize Concessional borrowing



Strategy Two (S2): Issuance of Sovereign Bond while reducing concessional.



Strategy three (S3): Lengthening maturity of domestic debt, reducing concessional, increasing Semi concessional and increase NDF to 1.5% of GDP.

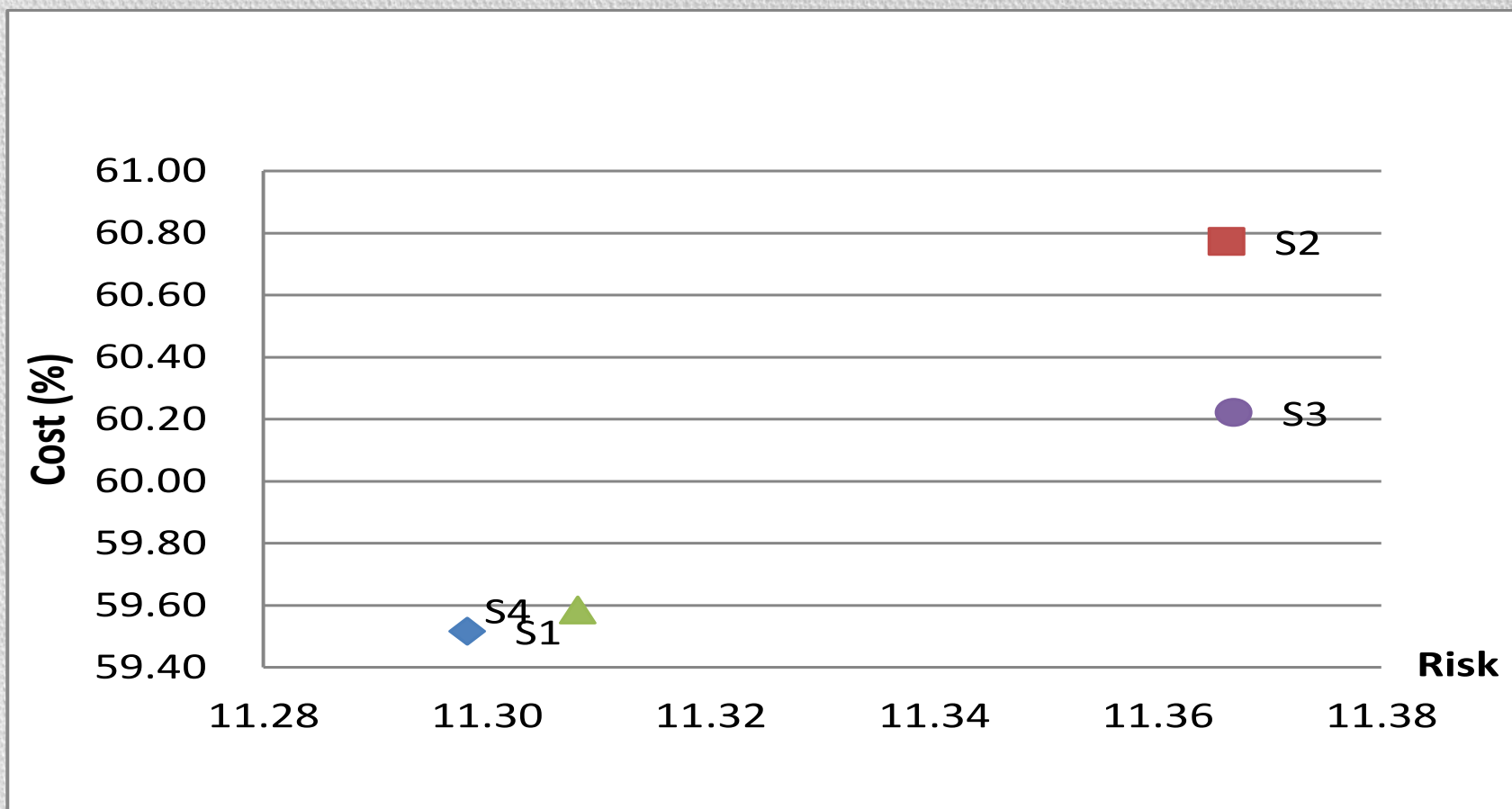


Strategy Four (S4): Increase Semi- concessional borrowing, reduce concessional borrowing and reduce commercial borrowing; IBRD, ADB and China will be used to finance this portion

Preliminary outcome

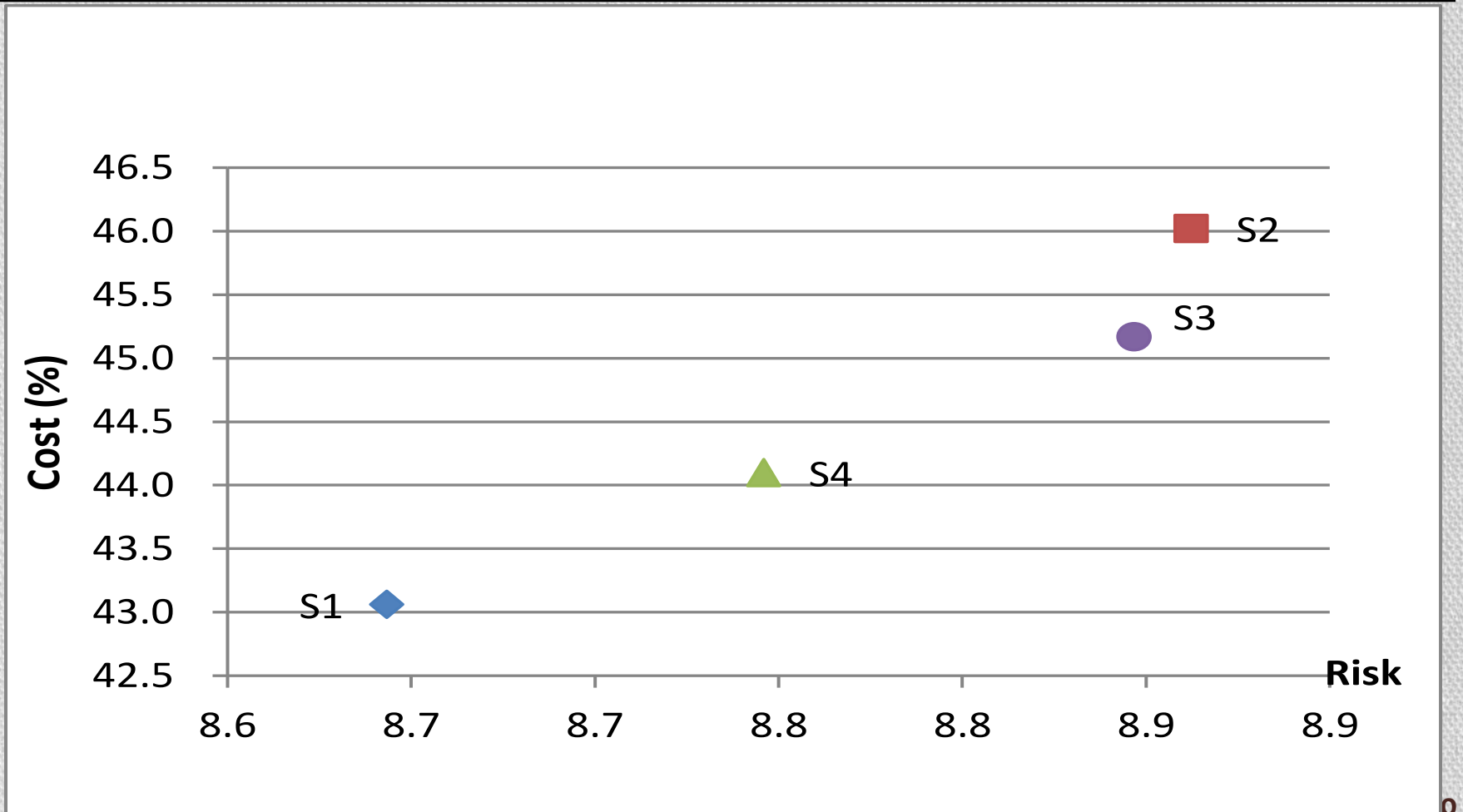
Debt Stock to GDP ratio as at end 2017

Scenarios	S1	S2	S3	S4
Baseline	59.516	60.772	60.221	59.585
Exchange Rate Shock (30%)	70.814	72.138	71.587	70.893
Interest Shock 1	60.694	62.066	61.515	60.794
Interest Shock 2	61.894	63.390	62.839	62.029
Combined Shock (15% depreciation and	66.482	67.891	67.346	66.589
Max Risk	11.3	11.4	11.4	11.3



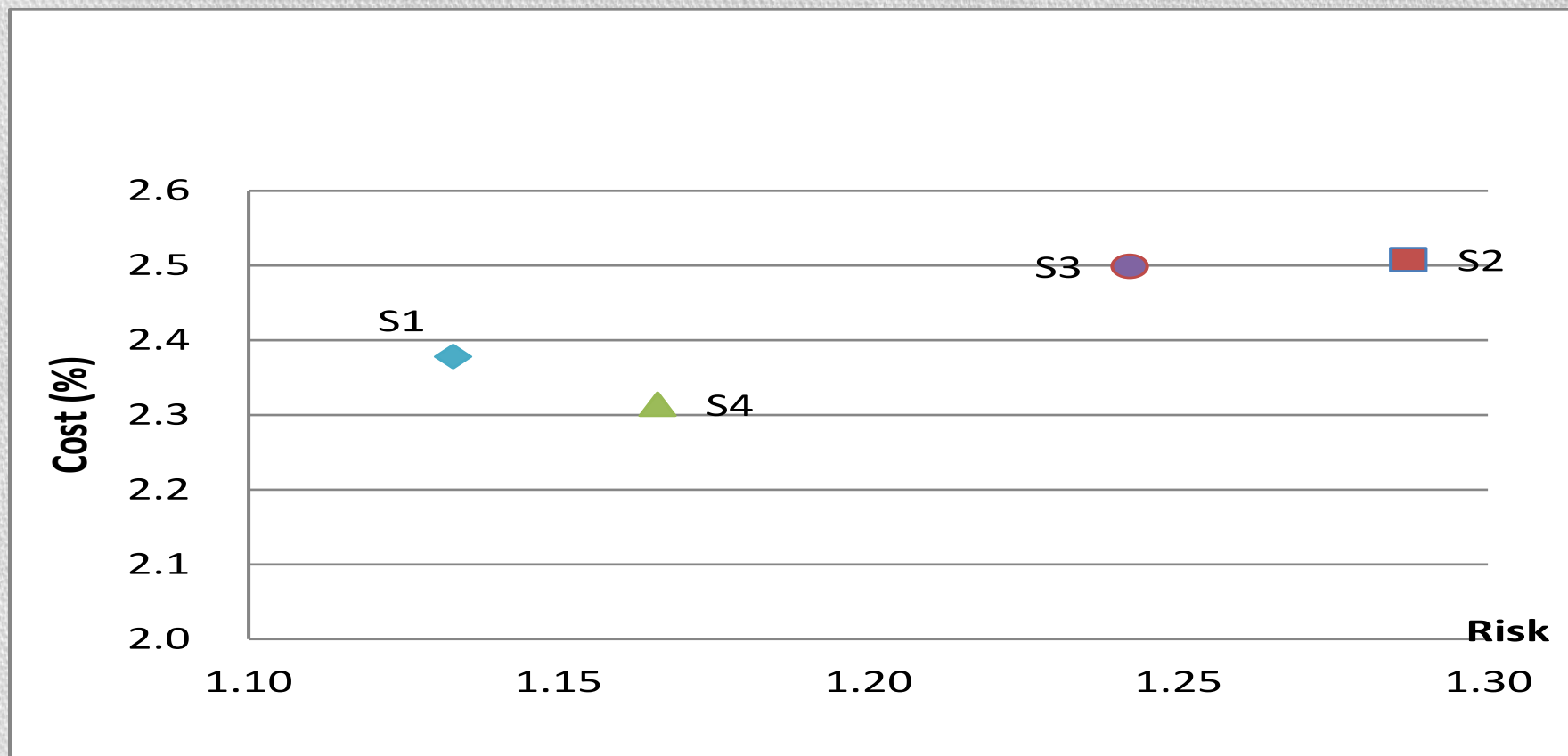
PV of Debt to GDP Ratio as at end 2017

Scenarios	S1	S2	S3	S4
Baseline	43.1	46.0	45.2	44.1
Exchange Rate Shock (30%)	51.7	54.9	54.0	52.8
Interest Shock 1	44.3	47.8	46.7	45.5
Interest Shock 2	45.6	49.6	48.2	46.9
Combined Shock (15% depreciation and	48.8	52.4	51.3	50.0
Max Risk	8.6	8.9	8.8	8.7



Interest Payments to GDP Ratio as at end 2017

Scenarios	S1	S2	S3	S4
Baseline	2.378	2.508	2.499	2.314
Exchange Rate Shock (30%)	2.667	2.805	2.799	2.598
Interest Shock 1	2.935	3.139	3.107	2.886
Interest Shock 2	3.511	3.795	3.741	3.480
Combined Shock (15% depreciation and	3.143	3.353	3.324	3.092
Max Risk	1.133	1.287	1.242	1.166

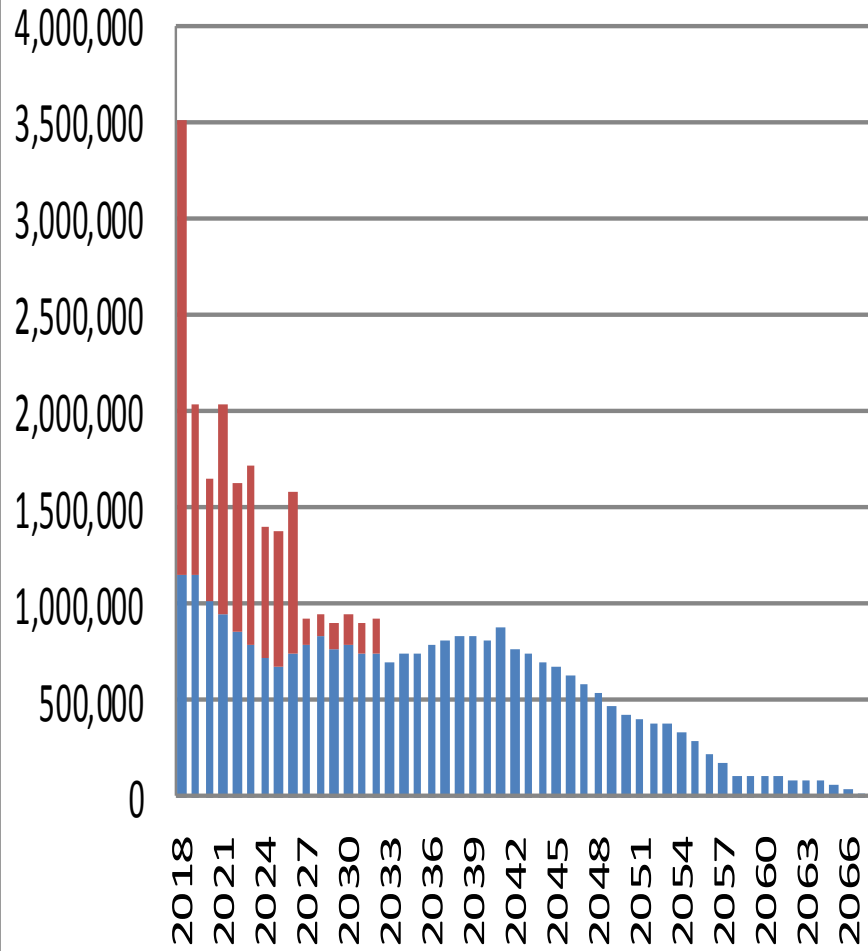


Risk indicators

Risk Indicators			2012	As at end FY2017			
			Current	S1	S2	S3	S4
Nominal debt as % of GDP			54.2	59.5	60.8	60.2	59.6
PV as % of GDP			40.9	43.1	46.0	45.2	44.1
Implied interest rate (%)			3.9	4.3	4.4	4.5	4.2
Refinancing	ATM External Portfolio (years)		16.6	18.0	16.5	16.9	17.5
	ATM Domestic Portfolio (years)		4.7	5.0	5.0	5.1	5.0
	ATM Total Portfolio (years)		13.1	14.7	13.7	13.6	14.3
Interest rate	ATR (years)		12.5	14.3	12.5	12.6	12.6
	Debt refixing in 1yr (% of total)		20.4	33.8	36.5	37.4	38.1
	Fixed rate debt (% of total)		87.4	71.2	68.4	68.3	67.0
FX risk	FX debt as % of total		58.2	74.4	74.9	72.6	74.4
	ST FX debt as % of reserves		5.8	9.0	8.3	9.0	7.5

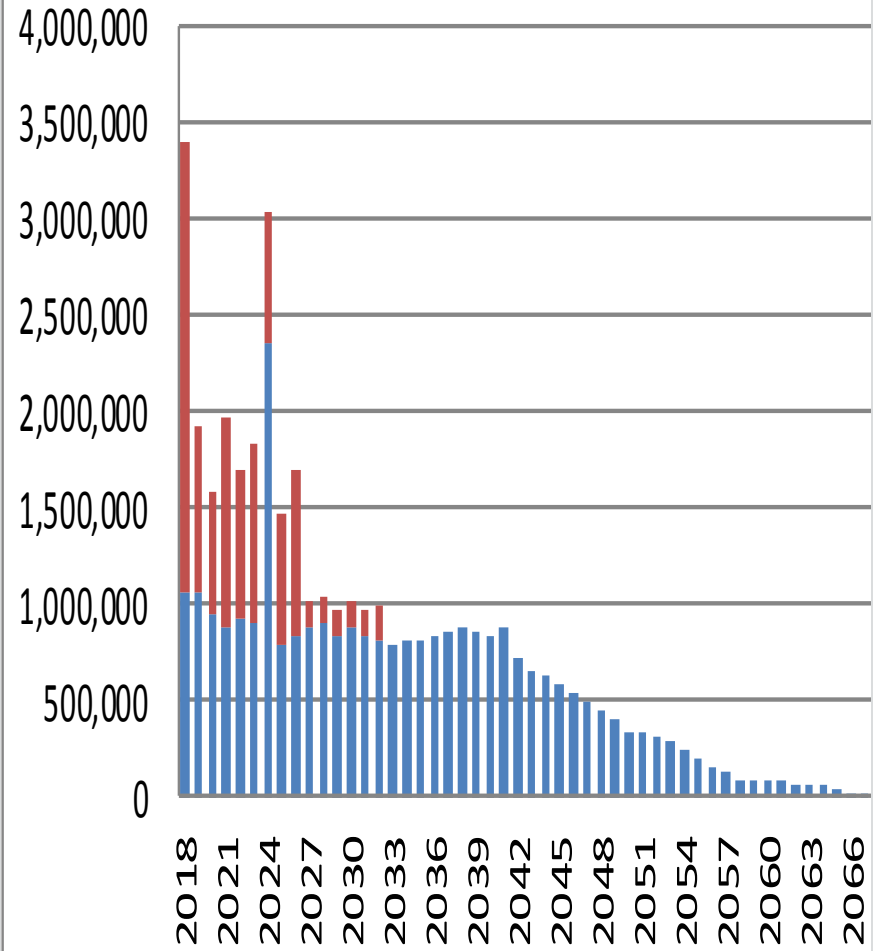
Strategy 1

External Domestic



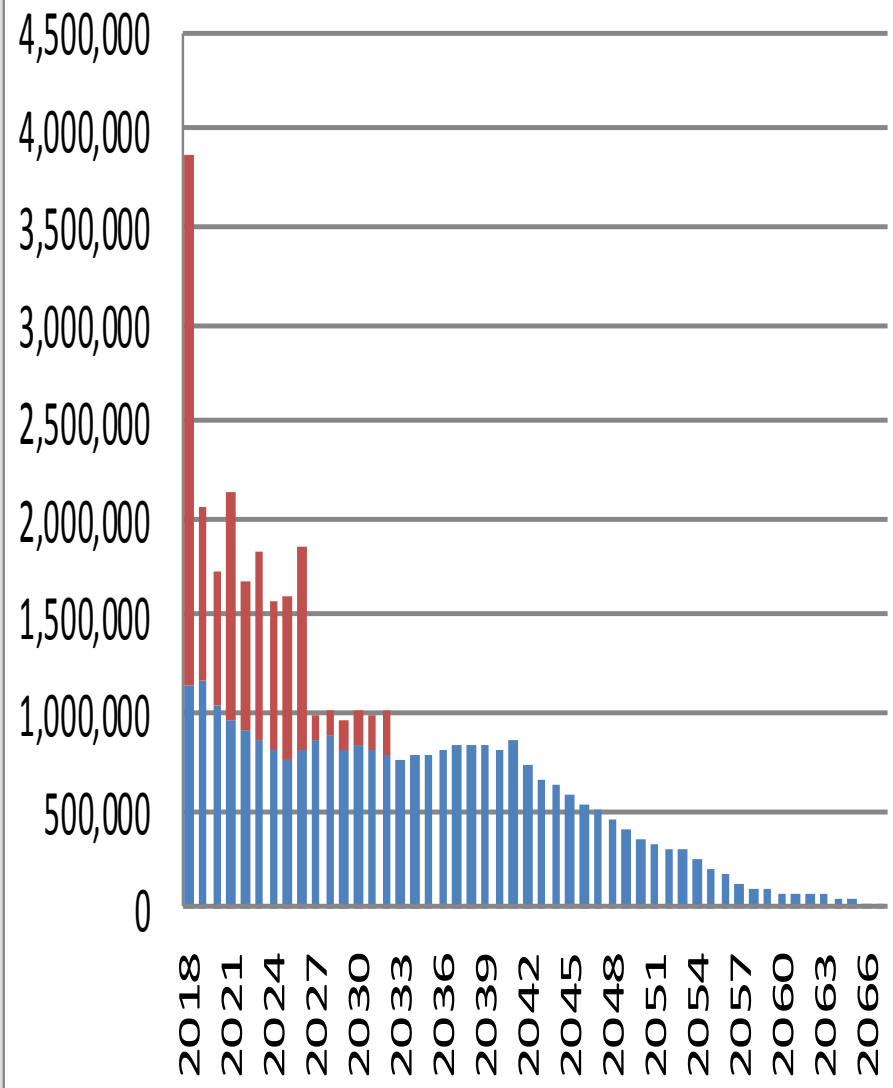
Strategy 2

External Domestic



Strategy 3

External Domestic



Strategy 4

External Domestic

