

Oxfam

International

Position Paper

Debt Relief for Tanzania: *An Opportunity for a Better Future*

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Executive summary

Tanzania is one of the world's poorest countries. Around half of the population lives below the poverty line, one in six children die before the age of five, and almost one-third of the population will not live until the age of forty. These human welfare indicators are the culmination of almost two decades of slow growth and under-investment in basic social services. Economic reform programmes have succeeded in raising per capita growth rates during the 1990s, winning praise from the IMF and the World Bank. However, there is little evidence of the resulting benefits 'trickling down' to the rural and urban poor. On current trends over 40 per cent of Tanzania's population will remain extremely poor at the end of the decade, even with strong growth performance.

The Tanzanian Government has committed itself to a long-term strategy aimed at eradicating poverty by 2025. Sectoral plans have been drawn up aimed at achieving progress towards universal primary education and the expansion of basic health services. Encouraging as such moves are, they are unlikely to succeed unless Tanzania's creditors act swiftly to reduce the country's massive debt burden. In the present financial year over one-third of budgetary expenditure will be allocated to external debt servicing, dwarfing the resources available for investment in human development. On a per capita basis, this means that Tanzania has been spending:

- **Nine times as much on debt servicing as on basic health**
- **Four times as much on debt as on primary education**

Oxfam International believes that such skewed spending patterns are inconsistent with sustained recovery and human development in Tanzania. Translated into human terms, excessive repayments to the external creditors means schools without desks, pencils, books and - in many cases - roofs; it means health centres without essential drugs; and it means women having to walk over three hours to collect water. It is unacceptable for debt servicing to absorb resources to the detriment of the social investments needed to enhance human welfare, sustain growth and, equally importantly, to convert growth into poverty reduction.

Debt reduction is an imperative for national development in Tanzania, as underlined by the country's debt indicators. The ratio of debt stock to exports is currently 406 per cent, or double the sustainability threshold set under the Highly Indebted poor Country (HIPC) debt initiative. The debt service ratio is 35 per cent (compared to a HIPC threshold range of 20-25 per cent), and the ratio of debt stock to budget revenue is 673 per cent (compared to a HIPC ceiling of 280 per cent). **Unsustainable debt now represents a major threat to Tanzania's economic reform efforts, as well as a drain on the resources needed for social sector investment.**

Problems with the HIPC framework

In theory, the HIPC framework could help to set Tanzania on a course for debt sustainability by providing comprehensive and integrated debt reduction. In practice, it fails to do so for three reasons:

- **Tanzania will not qualify for debt reduction until 2002, or later.** This is because of the requirement that eligible countries undergo two successive IMF programmes over a three year period; and because the IMF has been highly inflexible in interpreting Tanzania's track record. The HIPC framework allows a country's adjustment record to be taken into account to shorten the eligibility period, and Oxfam International estimates that Tanzania has a track record of around seven years since the mid-1980s. However, the IMF has arbitrarily discounted this track record on the grounds of a temporary lapse in 1994, despite the far-reaching economic and political reforms which have been introduced. In effect, Tanzania is being penalised for past problems when the aim should be to provide debt relief as an incentive and reward for good performance.
- **The debt sustainability criteria used in HIPC are unduly restrictive from a Tanzanian perspective.** Debt represents a massive drain on Tanzania's limited revenue base at a time when investment in human capital is desperately needed to underpin growth. Although the HIPC framework does include a fiscal sustainability threshold which sets an upper limit on the proportion of government revenues absorbed by external debt servicing, it has been designed in a way which excludes all but a handful of countries. Tanzania cannot be considered since it does not meet the revenue collection and export targets needed to qualify. Neither of these targets are relevant to the central problem facing Tanzania: namely, a debt service burden which is unsustainable in relation to fiscal capacity, and inconsistent with the investments needed to reduce poverty.
- **Over-optimistic export and growth projections could exclude Tanzania from eligibility for HIPC.** Oxfam International estimates that Tanzania will carry a chronically unsustainable debt burden into the next century. However, on the basis of export and economic growth projections which are unrealistic in the light of past performance, Tanzania may be treated as ineligible for debt relief under HIPC (to enter HIPC you have to have a debt to export ratio of more than 200 -250%).

As in other highly indebted poor countries, the danger now is that HIPC will at best deliver too little debt relief too late, and at worst that it will deliver nothing at all. Reforming the HIPC framework and implementing it more effectively in the interests of poverty reduction is now imperative if its increasingly strained credibility is to be restored - and the treatment of Tanzania will provide a litmus test of whether the political will can be generated to make the wider initiative work.

This *Paper* sets out the case for Tanzania being provided with earlier and deeper debt relief. It argues that the decision to delay debt reduction until 2002 is based upon an arbitrary and selective interpretation of Tanzania's track-record. According to the IMF and the World Bank, this began in 1996. The requirement that eligible countries undergo two successive IMF programmes means that it will take Tanzania at least six years to qualify. In fact, Tanzania has complied with IMF targets over a period of seven to eight years, stretching back to the mid-1980s. During the 1990s, it has undertaken one of the most far-reaching adjustment programmes in sub-Saharan Africa, including exchange rate liberalisation, privatisation, extensive trade liberalisation, and the removal of public sector monopolies in domestic marketing. Credit should be given for these advances. Instead, Tanzania is being penalised and its' reform programme jeopardised by a failure to provide early debt relief.

Oxfam International proposes that:

- **Tanzania receives earlier bilateral debt relief (through the Paris Club) than presently envisaged. In particular, the Paris Club provides 67% debt stock reduction under Naples Terms in November 1998, rather than November 1999. Tanzania will need this earlier bilateral debt reduction to become eligible for HIPC.**
- **Tanzania enters the HIPC debt initiative this year and receives debt reduction in mid 1999. In other words we recommend the HIPC Decision Point for Tanzania is brought forward to November 1998, and that the Completion Point is advanced to mid-1999.**
- **The Tanzania Government and its Debt Task Force prepare by the end of 1998 an integrated strategy for converting debt savings into poverty focused social investment, including accelerating the implementation of existing initiatives in education and health.**
- **The donor community responds positively to the Tanzania Government's request for a Multilateral Debt Relief Fund to provide immediate assistance in meeting payments to multilateral creditors.**
- **The eligibility criteria for receiving HIPC debt relief on fiscal sustainability grounds are amended to accommodate Tanzania.**

From debt relief to poverty reduction: next steps for HIPC

Just as debt servicing creates high social opportunity costs, so debt relief could help to finance major gains in human welfare. This Paper explores what could be achieved if the HIPC framework were reformed to include a debt sustainability criteria linked to human development; and if the resources released by debt were directed into poverty reduction and priority social investment. For illustrative purposes, we look at the savings which could be generated by the imposition of a 10 per cent cap on the proportion of government revenue used for debt servicing. We then ask what could be achieved by allocating 60 per cent of the savings generated to the education sector, using the Government's Basic education Master Plan 1998-2002 (BEMP) as a framework.

The results are striking. They suggest that it would be possible to:

- **Double the recurrent budget for primary education and increase the secondary school recurrent budget by 40 per cent**
- **Implement the Basic Education Master Plan and achieve its target of increasing primary school enrolment from 75 per cent to 85 per cent over three-and-a-half years, rather than five years**
- **Implement the plan over five years, but finance the repair of an additional 10,000 classrooms, provide safe water and sanitation for another 5,000 primary schools, and double the budget providing services to disadvantaged groups such as school drop-outs, illiterate adults and young girls.**
- **Raise the Gross Enrolment Rate from the 85 per cent envisaged for 2002 under the Basic Education Master Plan to 95 per cent, creating a platform for achieving high quality universal primary education by 2005.**

These are illustrative of the broad dimensions of what could be achieved in education. But the potential is not restricted to this sector. Were spending on debt to be transferred entirely to the health sector it would be possible for the Tanzanian Government to meet the \$12 per capita spending target which, according to the

World Bank, would be sufficient to finance a basic health care system accessible to the vast majority. More broadly, increased public spending on priority social areas would reduce the burden on households, who have been forced to meet a growing share of education and health financing through cost-recovery.

Against this background, Oxfam International proposes:

- **The integration of the HIPC framework into a wider strategy for poverty reduction in Tanzania**
- **The creation of a poverty-reduction window in the HIPC framework aimed at providing incentives, in the form of earlier and deeper debt relief, for the conversion of debt payments into social investments**
- **That the Tanzanian Government and donors identify financing gaps in existing poverty reduction planning and in social sector programmes which could be bridged through reduced debt servicing**

We propose that this approach be adopted as a new partnership between the Tanzanian Government and its creditors, whereby Tanzania's debt burden is reduced to realistic and sustainable levels, and where resources can be directed towards poverty reduction. This is not a one way channel with creditors only delivering resources, but a two-way contract with the Government of Tanzania clearly defining and committing themselves to utilising such resources for poverty reduction, with transparent mechanisms for monitoring implementation and impact, and where civil society has a full role in the development of goals and monitoring of achievements.

Introduction

"I would like my children to go to school, and be able to earn their own living when they grow up. Anyone who can't read and write in this country is going to have a lot of difficulties. I only went to Standard II. My parents died and so I couldn't continue. I can write my name so that people can read it. But things would be better if there weren't fees."

Paying school fees for her children is one of Mwajuma Kigu's chief worries. In Shinyanga she earns a meagre income of US\$10 a month selling fruit and vegetables in the market; school fees for one of her four children, Hilda, could absorb over a fifth of her annual income. Mwajuma's family is a microcosm of the poverty experienced by similar households throughout Tanzania.

Tanzania is one of the world's poorest countries, with some of its worst indicators for human welfare. One in six children die before the age of five and almost one-third of the population are expected to die before the age of forty - the consequences of poverty-related infectious disease and inadequate health care provision. Over half of the population does not have access to basic health care services. The human welfare deficit is equally large in education, with around two-thirds of the population being illiterate. While the Tanzanian Government has provided an encouraging vision for the future, including the eradication of poverty by 2025, current trends suggest little cause for optimism. Despite an improved economic performance during the 1990s, there is little evidence of the benefits of growth reaching the poorest communities - and progress in health and education has slowed. Even with strong growth to the end of the decade, over 40 per cent of the population will remain below the poverty line. Major losses in rural incomes associated with drought last year and flooding this year have increased poverty and increased the vulnerability of poor communities, threatening human welfare and development.

Foreign debt problems have been a major factor behind Tanzania's poor and deteriorating human development performance. In effect, external debt servicing has been 'crowding out' priority social investments, diverting the limited revenues available from government to overseas creditors. The effect has been to exclude the poor from opportunities to benefit from, and contribute to, the process of economic growth. In the last financial year, spending on debt servicing absorbed one third of the entire budget.

This is equivalent to:

- **four times spending allocations for primary education**
- **nine times spending on primary health care**
- **total spending on health and education combined**

For ordinary Tanzanians the costs of this resource diversion are high. In the education sector, over one-third of children are not enrolled in primary school, and drop-out rates are increasing as the education infrastructure is starved of investment. In the Shinyanga area, where Oxfam is working with poor communities, drop out rates have increased from 8 percent to 30 per cent since 1990. In the health sector, infant mortality rates have stagnated since the mid-1980s. As we show in this paper, diverting some of the resources currently earmarked for non-productive debt repayments into priority social sector investments could dramatically change this bleak picture, helping to create the human capital needed to provide a better future for Tanzania's citizens. The present crisis has added a new dimension of urgency to the need for action. Flooding and food shortages have contributed to increases in life-threatening diseases such as cholera, malaria, respiratory infections and diarrhoea. Debt constraints have hampered the capacity of Government to respond, prompting President Mkapa to call on creditors to reconsider their claims on Tanzania's limited financial base through improved debt reduction. Looking to the future, debt reduction would

help to underpin the Tanzanian Government's Vision 2025. This envisages Tanzania over the next quarter-of-a-century reaching similar living standards and economic performance to that in countries such as Malaysia today. If Tanzania is to embark on this type of development, far more needs to be done to build sustainable foundations through equitable growth, pro-poor land reform, and investments in education, health and water. Resources released from debt reduction will allow Tanzania to build those foundations.

The problem, which this Paper addresses, is that Tanzania has little prospect of achieving debt relief under the Highly Indebted Poor Countries (HIPC) initiative until 2002, or beyond. This is because of a selective and highly arbitrary interpretation of the country's past track record on the part of the IMF; and because of the failure of the creditor community to implement the HIPC framework with a sense of resolve and political purpose. The Tanzanian case also highlights some of the problems in the design of the HIPC framework. In particular, the focus on export-related debt sustainability criteria, has obscured the damaging impact of debt on domestic budgets and social sector investments. Important as such indicators are, they tell only part of the story. In Tanzania's case, debt service and debt stock indicators understate the scale of the problem posed by debt-related fiscal pressures. External debt repayments translate into schools without books, pencils, desks and roofs; into health clinics without drugs; and into inadequate investments in water and sanitation. In Oxfam International's view, debt service should not absorb resources at the expense of human welfare investments which form the foundations for future growth and development. This is especially true where debt repayments have the effect of hindering progress towards poverty reduction targets adopted by the industrialised countries themselves in their development policies.

The widening of debt sustainability indicators in HIPC to include a human development dimension should be a policy priority. In this context, Oxfam International has argued that the HIPC framework should be extended to include a new window, through which incentives could be provided to government's willing to convert debt repayments into priority social investments. Such incentives could include the provision of earlier and deeper debt relief linked to specific public spending commitments. This approach would differ from old-style conditionality in the sense that it would be based on incentives geared towards the interests of the poor, and towards the attainment of targets agreed by creditors and debtors. In this Paper we attempt to show how such an arrangement could be implemented in the case of Tanzania, focusing on the education sector and targets for increasing school enrolments and literacy levels. We also argue for action by Tanzania's creditors to provide Tanzania a more effective response to the country's problems. Measures proposed include:

- That the Paris Club provides 67% debt stock reduction under Naples Terms in November 1998, rather than November 1999.
- That the HIPC Decision Point for Tanzania is brought forward to November 1998, and that the Completion Point is advanced to mid-1999.
- That the Tanzania Government and its Debt Task Force prepare by the end of 1998 an integrated strategy for converting debt savings into poverty focused social investment, including accelerating the implementation of existing initiatives in education and health.
- That the donor community responds positively to the Tanzania Government's request for a Multilateral Debt Relief Fund to provide immediate assistance in meeting payments to multilateral creditors.
- That the eligibility criteria for receiving HIPC debt relief on fiscal sustainability grounds are amended to accommodate Tanzania.

While Tanzania is the focus for this Paper, the country's continuing debt crisis illustrates wider problems in the implementation of the HIPC framework. Two years ago Oxfam International welcomed the adoption of that framework. We argued that, with effective implementation and some amendment to the debt sustainability criteria,

it could bring down the curtain on a debt crisis which has hampered the development prospects of some of the world's poorest countries for almost two decades. In the event, the potential in the HIPC framework has remained unrealised. Inadequate implementation has resulted in protracted delay, with only a handful of countries likely to receive debt reduction by 2000. Meanwhile, failure to amend the debt sustainability criteria has reduced the potential benefits of debt reduction, while excluding a number of countries in urgent need of relief. The upshot is that HIPC is providing too little too late, stretching the initiative's credibility to breaking point. Contrasts between the political resolve shown by the international community in addressing the financial crisis in East Asia, and their failure to adequately address the debt problems of poor countries in Africa and elsewhere, are increasingly difficult to avoid.

Human Cost of Debt Indicators for 1996/7	
Debt service/primary health budget	1022%
Debt service/primary education budget	373%
Debt service/total health and education budgets	153%
Source: World Bank/IMF	

The first section of the paper reviews Tanzania's debt profile, the nature of the unsustainability of the debt burden, and the impact on this on social investment and aid effectiveness. The second section looks at the prospects of debt relief, Tanzania's track record of good performance, and the inappropriateness of existing debt sustainability criteria to address Tanzania's problems. The paper finishes by reviewing the potential impact that debt relief may have on poverty reduction measures, in particular the impact on the primary education sector is closely reviewed.

The nature of Tanzania's debt

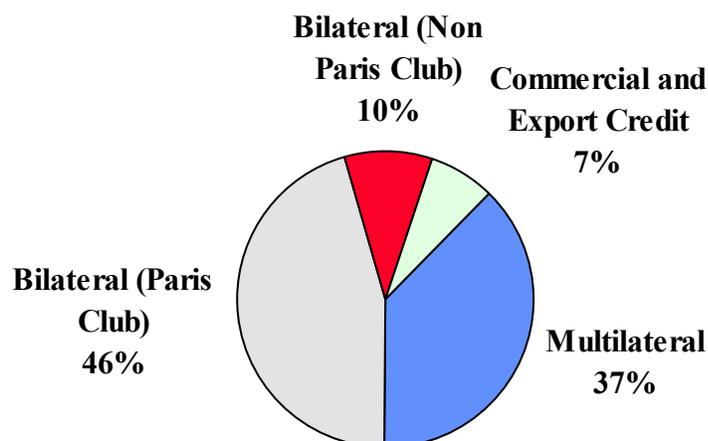
Debt profile

As in other low-income countries, Tanzania's debt problems can be traced to a combination of domestic policy failings and adverse external trends, including rising real interest rates and deteriorating commodity prices. The end result was a growing divergence between debt service demands and debt service capacity, leading to a relentless build-up of arrears and an increasingly unsustainable debt stock. This divergence has continued into the 1990s, despite successive rounds of rescheduling by the Paris club of bilateral creditors, underlining the comprehensive failure of previous debt relief strategies. Another common element linking Tanzania's debt problems to those of other low income countries has been the steady increase in multilateral debt. The HIPC initiative was intended to address these twin problems of debt overhang and the growing profile of multilateral creditors by establishing debt sustainability indicators linked to ability to pay; and by extending debt relief to categories of debt - including multilateral debt - previously deemed ineligible for rescheduling or reduction.

In 1997, Tanzania's external debt totalled just under \$7.8bn. Multilateral creditors account for just under 40% of this total, and bilateral creditors for almost 50%. Multilateral debt stock is expected to represent over three quarters of total stock by 2000, with the World bank's concessional arm, the International development association (IDA), dominating. In descending order, the main bilateral creditors are Japan (28%), Russia, the UK (10%) and Italy (6%). Collectively, this group accounts for over half of total bilateral debt. Figure 1 summarises the distribution of debt stock between multilateral and bilateral creditors.

figure 1

Tanzania 1997 External Debt Stock, Total \$7.8bn



Debt service payments falling due in 1997 amounted to \$275m - equivalent to around 35 per cent of export earnings. The Government of Tanzania has indicated its intention to meet these payments in an effort to secure a reduction in debt stock from the Paris Club and entry to the HIPC framework (see below). However, meeting this target will impose an enormous strain on public finances. As illustrated in Figure 2, actual debt payments during the first half of the 1990s have averaged between 40- 70 per cent of scheduled payments, with an attendant accumulation of arrears. In fact, principal and interest arrears now account for in excess of 60 per cent of Paris Club debt, underlining the failure of bilateral creditors to respond effectively to Tanzania's debt problems. Constant rescheduling during the 1980s and early 1990s had the effect of adding to the debt overhang. Even the debt stock reductions provided since then have been grossly inadequate. For example, early in 1997, the Paris Club agreed to reduce Tanzania's debt by \$1bn - an impressive headline figure, but equivalent to less than half of the arrears accumulated during the 1990s (see Figure 3). Repayments to the Paris Club over the next three years will significantly exceed average payments for the period 1990-1995, with a major hump in payments during 1999. Future debt servicing increases to an average of US\$310m per annum in the early part of the next decade.

Tanzania's arrears on bilateral debt reflect the growing claims of 'preferred' multilateral creditors. Repayments to these creditors have to be maintained as a condition for development assistance, thereby limiting the scope for flexibility in debt management. The share of multilateral creditors in actual debt servicing has increased from 21 per cent in 1992 to 41 per cent in 1997. Repayments to the IMF are disproportionately high in relation to the Fund's share of debt stock as a result of the less concessional nature of its lending by comparison with IDA. Thus while the Fund holds only 6 per cent of multilateral debt, it absorbs 20 per cent multilateral debt servicing, or \$37m in 1997/8. As with the Paris Club, this reflects the failure of the IMF to develop a credible response to the debt problems facing its low-income borrowers.

figure 2

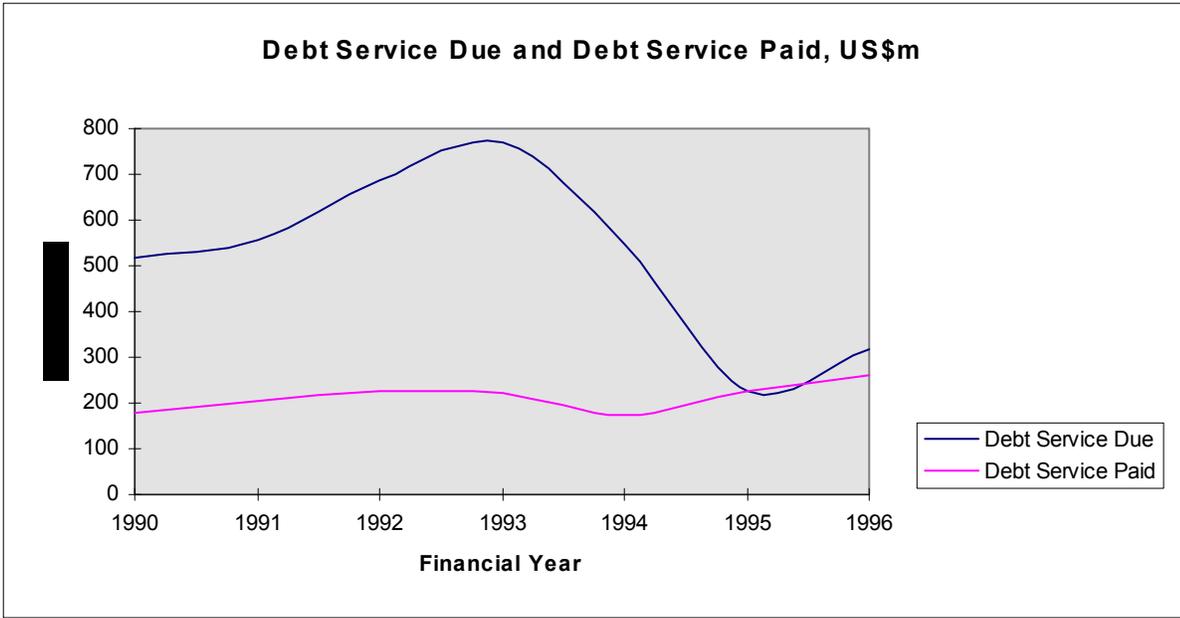
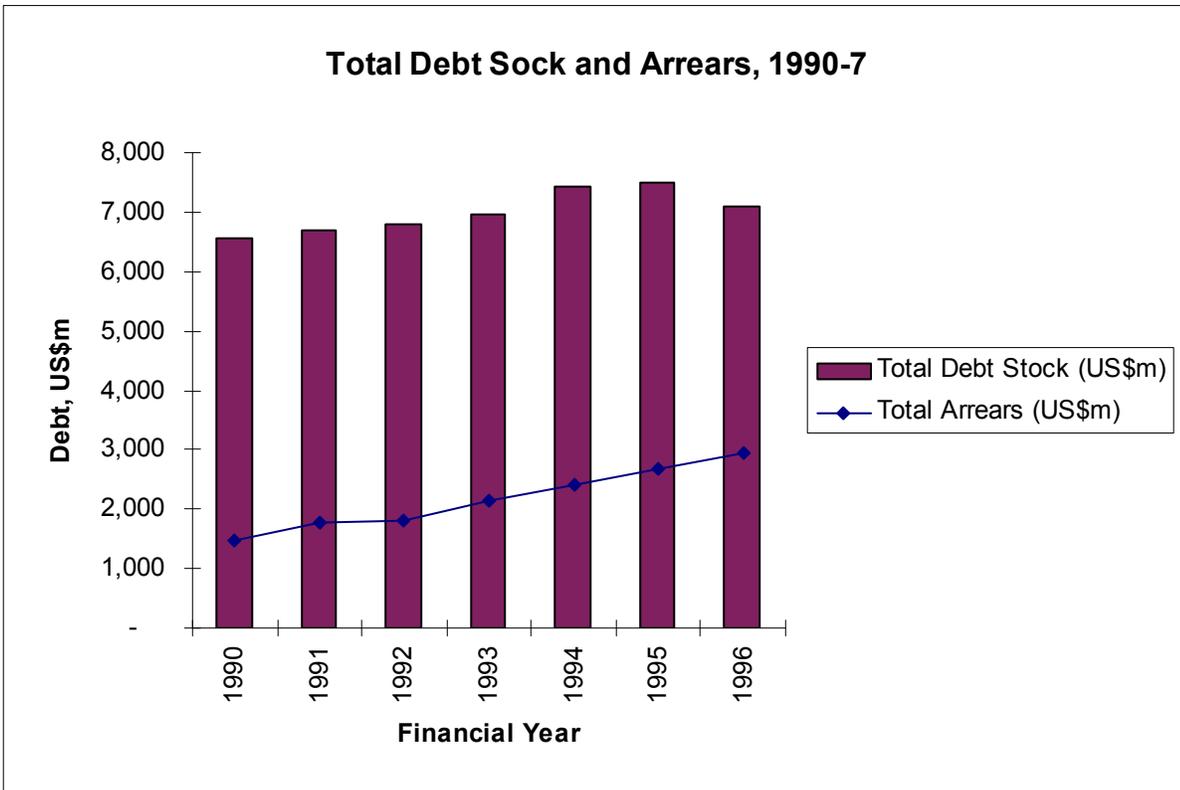


figure 3



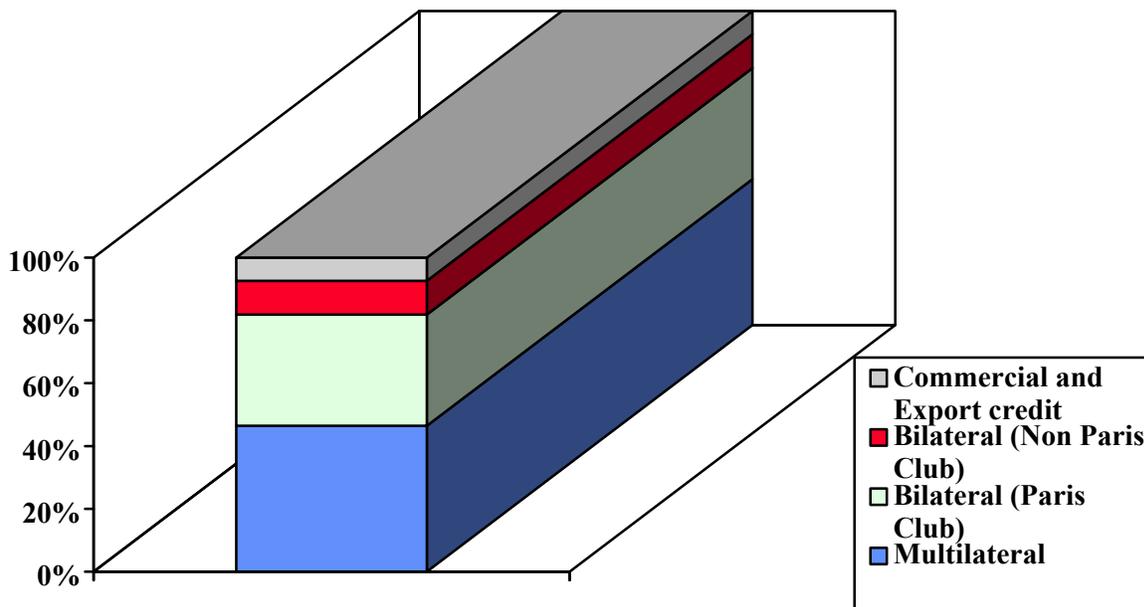
Multilateral Debt Fund

It is the inflexibility associated with multilateral debt that has prompted the Tanzanian Government to request support for a US\$320m Multilateral Development Fund to cover multilateral debt servicing during the next three years. In the absence of such a fund, the growing claims of bilateral creditors and the imperative of

financing multilateral debt transfers will stretch public finances to breaking point. Figure 4 summarises debt service obligations for 1998

figure 4

External Debt Servicing 1997/8, Total \$275m



While maintaining that HIPC debt relief is justified and possible for Tanzania before 2000, the country faces chronic debt problems over the next three years, even after taking into account the 1997 Paris Club agreement. Indeed, while this agreement will reduce the headline figure for debt stock by around \$1bn when fully implemented, it is worth noting that this represents the equivalent of arrears accumulation of the past five years.

If the Government of Tanzania is to avoid falling into further arrears with its Paris Club creditors (and thereby jeopardising its prospects of a debt stock reduction in 1999), while at the same time meeting multilateral creditors demands, it will need to generate an additional \$100m per annum in debt repayments. This is before taking into account payments to non-Paris Club creditors.

Against this background, Oxfam International strongly supports the Tanzanian Government's request for the creation of a Multilateral Debt Relief Fund. This would act as a balance-of-payments support fund earmarked for debt payments to international financial institutions. Adequately financed, such a fund could help to prevent a build-up of arrears to bilateral creditors, while at the same time generating savings in the recurrent budget. The Government has indicated that it will prioritise the transfer of these savings to social sector ministries. The Multilateral Debt Relief Fund could then serve as a pilot for linking future HIPC debt relief into poverty reduction.

Debt sustainability

External debt can compromise national development efforts in a number of ways. While the precise effects of unsustainable debt stocks and excessive debt servicing are the subject of continued debate, a check-list for the destructive effects of debt would include:

- the diversion of foreign exchange and resulting limits on import capacity, competitiveness and investment
- the drain on domestic savings, again limiting the scope for investment and increasing dependence on aid
- the diversion of government revenue and resulting limitations on the governments capacity to finance investment in social and economic infrastructure
- increasing uncertainty over exchange rate stability, with adverse consequences for domestic and foreign investment
- the diversion of international aid from poverty reduction priorities into debt repayments

In the case of Tanzania, each of these factors has, to varying degrees, undermined prospects for social and economic development.

Just as the precise effects of debt are open to debate, there is no hard and fast formula for determining debt sustainability. Differences between countries with regard to their average incomes, the extent of poverty, savings and investment levels, export growth and revenue raising capacity all have a bearing on debt sustainability. So, too, do poverty and human development levels. Any assessment of ability to pay must take account of the balance to be struck between the claims of external creditors on budget resources, and the claims of national citizens to adequate health and education provision, and to employment opportunities. Stated at its starkest level, every dollar spent on debt is a potential dollar diverted from schools, primary health clinics and clean water provision - and the more intense the poverty, the higher the resulting trade-off will be.

The HIPC framework has established three main criteria for assessing debt sustainability: namely, the ratios of present value debt stock to exports, debt servicing to exports, and present value debt stock to budget revenues. As illustrated in Table 1, Tanzania's debt burden is currently unsustainable on each count.

table 1

Debt Sustainability Criteria		
	HIPC debt sustainability criteria	Tanzania
Debt stock/exports	200-250 (NPV)	406
Debt service/exports	20-25	35
Debt stock/budget revenue	280 (NPV)	673

It should be stressed that the HIPC thresholds understate the degree of Tanzania's debt unsustainability. This is because they are set at levels which are unrealistically high for many heavily indebted poor countries. For instance, the 20-25 per cent debt service ceiling was derived by the IMF and the World Bank from studies of Latin American countries with significantly higher levels of average income, and with more highly developed social and economic infrastructures. Oxfam and other NGOs have proposed ranges of 150-200 percent (NPV) for debt stock/exports and debt stock/revenue, and 15-20 per cent for the debt service ratio, which are more appropriate given the context of HIPC countries.

Leaving aside the appropriateness of the HIPC thresholds, sustainability against the benchmarks they establish will

be determined in part by debt service schedules and the response of the creditor community to Tanzania's debt problems; and in part by the overall performance of the economy, export growth and revenue collection. World Bank and IMF projections for an economic growth rate of 3.5 per cent and an export growth rate of 4.5 per cent indicate that in 2000 debt stock will be equivalent to 227 per cent of exports, and that total debt service will continue to absorb 15 per cent of export earnings and 41 per cent of government revenue. **On the basis of more realistic macro-economic projections than those used by the World Bank, the present value of debt to revenue will remain in excess of 320 per cent by 2002, or some 40 percentage points above the HIPC threshold. With regard to debt service projections, much will depend on the rate of recovery from last years' drought, this years floods, the success of the economic reform programme, and a reduction in arrears. Once again, more realistic projections would leave the debt service ratio at the upper end of the 20-25 per cent range.**

The sustainability of Tanzania's debt position cannot be fully captured by debt/export indicators. Other dimensions of economic vulnerability have a major bearing on debt sustainability. For example, Tanzania's current account deficit was around US\$840m in 1996, which was equivalent to over 14% of GDP at that time. Exports covered less than half the value of imports, leading to a very high level of dependency on aid. In a global climate of reducing aid budgets, this leaves Tanzania in an extremely vulnerable position.

This situation is untenable. Unsustainable debt overhang and debt servicing demands threaten to undermine investment, limit import capacity and erode the long-term competitiveness of the Tanzanian economy. More immediately, the fiscal burden of debt, allied to a population growth rate of almost 3 per cent a year, raises the spectre of a continued erosion of Tanzania's human capital base, with adverse implications for growth and poverty reduction. It is this fiscal dimension of debt which makes Tanzania's early entry into the HIPC framework vital to the country's future.

The fiscal impact of debt: crowding out social investment

Paradoxically, the fiscal dimension of Tanzania's debt problem has been exacerbated by the Government's attempt to adhere to stringent IMF targets aimed at achieving low inflation. The fiscal deficit has been reduced to less than 4 per cent of GDP as a result of more effective controls on public spending and reduced subsidisation for parastatals. Meanwhile, debt servicing demands have been increasing. The upshot has been a budgetary squeeze, with external debt absorbing a growing share of the budget.

In 1997, foreign debt accounted for around one quarter of government revenues, a decline over previous years but still a massive burden. The best-case scenario to the end of the decade is that repayments to foreign creditors will continue to account for around a fifth of revenues. Domestic debt has exacerbated the pressures of external debt, as illustrated by Table 2. The end result is that government capacity to maintain even the most basic social sector provision is being eroded. A related problem has been the emergence of a domestic debt problem, with repayments in this area absorbing a further 14 per cent of revenues. The end result is that the scope for public investment in priority areas is now minimal, with debt and wages absorbing over two thirds of the budget. The weight attached by the Tanzanian Government to meeting creditor demands is reflected in the fact that actual debt payments exceeded budget allocations in 1997. By contrast, the development expenditure budget, which finances activities such as school building, was under-spent by over 60 per cent.

Figures 5 and 6 illustrate how external debt is skewing public spending priorities away from priority social sectors. In 1997/1998, the Tanzanian Government is spending \$9 per capita on debt repayments. This is equivalent to three times spending on health, and double the level of spending on education. Despite a re-allocation of social sector financing in favour of primary level facilities over recent years, the upshot is a situation in which Tanzania has been spending:

- **Nine times as much on debt repayments as on basic health care**
- **Four times as much on debt as on primary education**

Such facts point towards the high social opportunity costs of debt repayments. But they also illustrate the potential benefits of converting debt servicing into social investments - an issue to which we return in the final section of this Paper. According to the World Bank, the Tanzanian Government would need to increase its education budget by about 76 per cent in order to finance the investments needed to achieve universal primary education. Under present budgetary circumstances such an increase is inconceivable. Yet if current debt service levels were reduced by half, and the savings allocated to primary education, the target could be achieved. In the health sector the World Bank estimates that spending of \$12 per capita is required to finance a basic health care system. Meeting this target would require a four-fold increase in Tanzanian health spending, representing \$9 per capita - a sum equivalent to present per capita spending on debt. The scope for converting debt servicing into social investments which will bring major human welfare gains underlines the case for integrating poverty reduction concerns into the HIPC framework.

It must be stressed that the position for fiscal year 1997/1998 is not untypical. During the 1990s debt servicing has consistently absorbed more than three times as much of GDP as primary health and primary education (see Figure 7). The results have been cumulative, with both the health and the education systems suffering from resource strangulation and deteriorating service quality. Government efforts, supported by the donor community, to increase spending on basic social services by reallocating resources from higher level facilities have been undermined by the budgetary claims of debt servicing. For example, even though the share of the primary school budget in the overall education budget has risen by almost 20 per cent since 1990, per capita spending has fallen dramatically as a result of public spending constraints and population growth. On a per capita basis, per capita spending per pupil has fallen by one third since 1990s. In 1997, as debt payments rose, the budget for school materials was cut by almost 20 per cent. This translates into further shortages of text books and other teaching materials, placing poorer families who are unable to afford such materials, including exercise books, at a special disadvantage. Per capita spending on health has also plummeted since 1996, with particularly disastrous effects in the light of the spread of infectious diseases caused by drought and flooding, increases in malnutrition, and the devastating effects of AIDS on health, the household economy and the human resource base of the country.

One of the problems with the debate on debt in general and the HIPC framework in particular is that it has been cast in narrow financial terms. Human development considerations have been conspicuous by their absence. Yet such considerations merit more attention in countries such as Tanzania. For instance, how can the creditor community justify a situation where the imbalance between debt service obligations and health spending in a situations where:

- **One in six children do not reach the age of five because they fall victim to easily preventable infectious diseases associated with poverty**
- **Over 40 per cent of people die before the age of 35, with malaria, respiratory infection and water-borne diseases accounting for half of these deaths**
- **An estimated 800,000 people suffer from an AIDS epidemic which is placing intolerable strain on the public health system and households**
- **Less than one-fifth of the population has access to safe water**

The same question could be asked about the situation in education. Schools are being starved of resources and children denied even the most basic opportunities for an education which will help to prepare them for a productive

life. Yet, for all their encouraging rhetoric on the importance of primary education, Tanzania's creditors are willing to tolerate a situation in which debt repayments massively outstrip education spending.

table 2

Debt service and government revenues (%)				
	1997	1998	1999	2000
Debt service/revenue	33	27	25	24
of which				
External debt	24	18	17	18
Domestic debt	9	9	8	6

Source: World Bank

The question has to be asked whether Tanzania can afford to sustain current levels of debt repayments. For Oxfam and its partners, the growing costs of debt are becoming increasingly apparent at the village and household level. They are becoming apparent in the dilapidated state of the country's schools, in shortages of essential drugs, and in the rising costs of health and education services as households are forced to fill the gaps left by inadequate public spending. For the poorest households, cost-recovery - or the policy of charging users for education and health services - is now a significant barrier to primary schools and basic health facilities (see Box). The immediate costs to households denied access to opportunities for education, or to treatment for illnesses, are all too evident. They are reflected in Tanzania's worsening indicators for educational performance and in the slow progress towards reducing infant mortality levels. Looking to the future, the costs of educational under-attainment and poor health will be reflected in lower growth rates - and in slow progress towards poverty reduction. In a situation where, even on the basis of optimistic growth scenario's, 40 per cent of the population will be in poverty at the end of the decade, continued failure to convert debt repayments into social investments points towards a social disaster.

figure 5

Total per capita spending, 1996/7

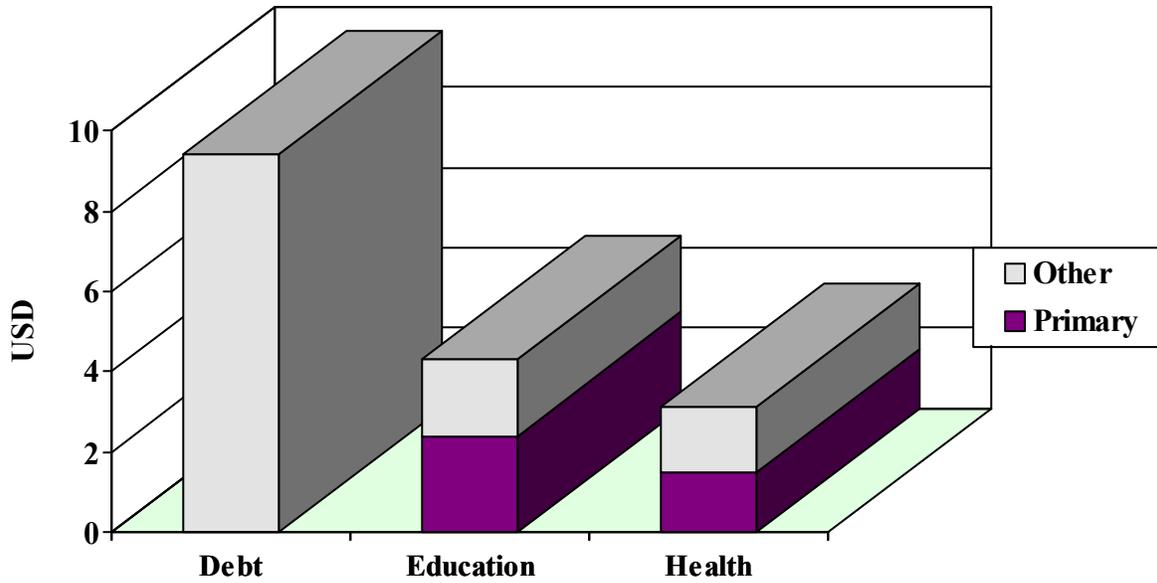
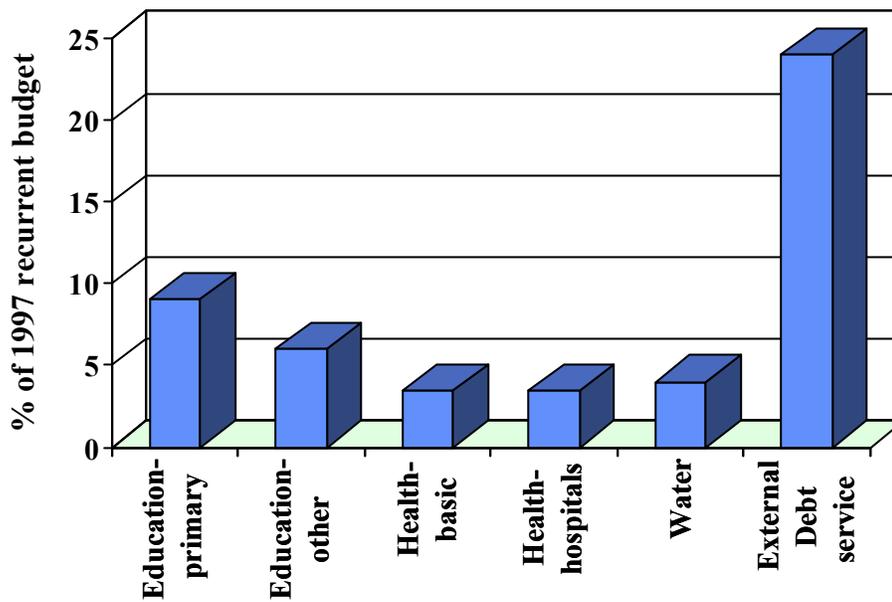


figure 6

External Debt and Social Service Budget



The cost of primary education

Nyabiyonza village in Karagwe is lucky, on the hill stands a new school, with 8 classrooms and 3 staff-rooms. Behind the school are several teachers classrooms, and beside it is a large water storage tank to collect rainwater. The school was built by the villagers of Nyabiyonza, with funds and advice from Oxfam. "This school has made a lot of difference", explains Lydia Sostenes, who has two children at the school, "Children used to walk far for school outside the village, and come home late. And there weren't enough places for them all... And I'm happy that the children can drink safe water here, at school, compared to the other schools where there is no water supply."

However, it is one thing to have a school, and another to be able to afford to send your children to the school. In a country desperately short of schools, it is tragic that the Standard VII class in this new building, had in January 1998, less than half of the enrolled children actually present in class. According to the head-teacher, Modest Katabwa, "We might expect five to be absent through sickness, but the others are not here because they lack school uniforms or haven't paid fees. At the beginning of the year this problem is usual - they pay later in the year. It is possible for them to pay part and still attend the school. If they pay part, they are given one or two months' grace to pay the full amount..."

At one time, Tanzania's primary education was compulsory and free. Now it is not free, and for Lydia Sostenes fees for each child include: a national enrolment fee of Tsh1,000, a 'registration' fee of Tsh1,500, a building fee which varies between Tsh2-5,000, sports at Tsh1,000, a watchman's fee at Tsh200, a uniform that may be around Tsh5,000, exercise books at Tsh70 each and a child will need around 30 in Standard VI. Costs per child can reach Tsh13-16,000, some US\$20-24. Lydia has four children in total in schooling with yearly costs in total between Tsh52-64,000 (US\$80-100), if none of the bills are waived.

How does she pay for all of this? Her and her husband are farmers, from the farm they feed themselves and their children, sometimes selling surplus maize, beans and groundnuts. They grow coffee as a cash crop, and earn around Tsh15,000 a year from three sacks sold. They also brew beer, which is sold at Tsh1,500 for a 20 litre tin. Lydia sometimes brews three tins in three months, and her husband contributes from his own brewing. Lydia is also the Chairperson of Tegemeyo women's group, and earns a little from the group farming of its 18 members and rearing of goats and chickens. It is clear that the sums do not add up, and for Lydia educating her children is a constant struggle to pay fees and to ask for relief from fee payment.

"I am not demoralised by the difficulties that we have. People are always willing to help. We don't have a problem, because we help each other, friends and family. I'm confident the future will be better, when the young ones grow up. They're still young. The future is bright for them."

Implications for aid effectiveness

It is not only public spending in Tanzania which is being distorted by the failure of creditors to provide an adequate debt relief framework. Development assistance budgets are also being undermined, in two ways.

First, aid is being diverted away from poverty reduction initiatives into debt refinancing. In 1996, debt servicing absorbed 31 per cent of the development assistance provided to Tanzania. In effect, this meant that \$1 out of every \$3 dollars provided in the form of budget and balance and payments support was recycled to multilateral and bilateral creditors.

The second way in which debt repayments are damaging aid effectiveness is in reducing disbursement rates. As a result of having to transfer budget resources to external creditors, the Tanzanian Government has been unable to generate the local counterpart funds required to draw on aid transfer made to various sectoral programmes (aid can only be released when the Government releases 'counterpart' funds as their contribution to the programme). In consequence, a large proportion of aid is left unutilised in foreign exchange accounts, instead of being converted

into programme and project interventions which could reduce poverty. During the first half of 1997 aid disbursements were equivalent to 57 per cent of the targets set in the budget, leaving a huge financing gap in the development budgets for social sector programmes.

As the Helleiner Report into relations between Tanzania in the donor community noted in 1995, uncertainty over aid flows is a major source of budget instability. More generally, it would appear difficult to justify a debt management strategy which, by diverting domestic resources, reinforces Tanzania's dependence on aid at a time of growing uncertainty about development assistance flows; and which diverts aid from the poverty reduction purposes to which it is ostensibly directed.

As we suggest below, current levels of debt repayment are inconsistent with the Government's aim, set out in its Basic Education Master plan, of increasing the school enrolment rate from 75 per cent to 85 per cent by the year 2002. If this target is to be achieved, investment in education will need to be increased substantially in order improve the quality of schools and teachers. This is recognised by donors, who are currently preparing to make financial commitments for the implementation of the sectoral education plans. But external debt pressures are eroding the Government's capacity to finance its education plans. At the end of this report, we suggest some concrete ways in which debt relief could impact on education spending.

Human Welfare Indicators

Population in poverty	51%
Life expectancy	50 years
Infant mortality	99/1,000 live births
Under-5 mortality	160/1,000 live births
Adult literacy female	26%
Adult literacy male	48%
Population with access to health centres	42%
Population with access to safe water	38%

Source: UNDP

Debt relief prospects under HIPC

As the evidence above suggests, Tanzania is urgently in need of debt relief, including a reduction in multilateral debt. The HIPC framework provides for the type of comprehensive and integrated approach to debt reduction which is required, but the inflexible interpretation of eligibility requirements has resulted in the World Bank and the IMF deferring Tanzania's Decision Point (i.e. the timing of a decision on HIPC debt reduction) until 1999, and the Completion Point (when debt relief would be provided) until 2002, or whenever the country concludes its next IMF programme. Even without the prospect of a protracted delay, the IMF-World Bank have indicated, on the basis of growth projections which hover between the bold and widely optimistic, that Tanzania is unlikely to qualify for debt relief on the grounds that its debt/export and debt service ratios will fall below the HIPC thresholds. They also argue that Tanzania does not meet the eligibility requirements for debt relief on the basis of fiscal indicators.

Oxfam International rejects this assessment on two counts. First, the protracted delay to the Decision Point and then to the Completion Point is unjustified. As for other countries, the requirement that Tanzania should have to wait for up to six years for debt relief is unacceptable. Early debt relief is needed to create the conditions for sustained growth and human development. Moreover, even with existing HIPC rules, Tanzania's track record on economic reform merits earlier debt reduction. For reasons which we explain below, Oxfam International believes that a

target date for HIPC debt reduction of 1999 would be consistent with these rules. What is clear is that without earlier debt relief there is a danger that debt servicing will undermine the economic reform programme and the ambitious poverty reduction targets set by Government and agreed by donors.

Second, on the basis of the data summarised above, and in the light of recent economic setbacks, we believe it to be unlikely that debt sustainability will be achieved by 2000. There is strong likelihood that debt-stock and debt-to-export ratios will remain in excess of the HIPC thresholds, which are themselves unrealistically high. While it is true that Tanzania is unlikely meet the fiscal criteria for debt unsustainability set under the existing framework, this is a reflection of the inadequacy of the criteria, rather than an accurate indication of Tanzania's capacity to carry the fiscal burden of debt.

Track record

The HIPC framework establishes a six-year track record of compliance with IMF programmes, with three years in advance of the Decision Point and a further three years between the Decision Point and the Completion Point. The stated aim of this requirement is to avert the threat of moral hazard. However, for countries with a strong previous track record, the time gap between the Decision Point and Completion Point can be compressed. For instance, Uganda and Bolivia were granted a two-year reduction (i.e. from three years to one) on the grounds of their long history of compliance - stretching over some ten years - with IMF programmes.

The decision to postpone debt reduction for Tanzania until 2002 follows a breakdown in relations between the previous Government and the donor community in 1994 over a failure to meet revenue collection targets. This culminated in the temporary suspension of donor balance of payments support. The inauguration of a new IMF programme in November 1996 has been taken as the starting point for Tanzania's track record, with no credits being granted for past performance.

It is this failure to consider past performance (as happened in the cases of Uganda and Bolivia) which is at the heart of the delay now facing Tanzania. Contrary to IMF claims, there are strong ground for providing credits for achievements under earlier economic reform programmes. Tanzania adhered to IMF Stand-by Agreements in 1986/87, it implemented an IMF Structural Adjustment Facility programme from 1987-1990, and was on track under an Enhanced Structural Adjustment Facility programme from 1990-1992. Moreover, prior to the inception of its current programme, which has been on track for eighteen months, Tanzania adhered to a 'shadow' IMF programme for six months. **On a less inflexible interpretation than that currently favoured by the IMF-World Bank, Tanzania's track record would amount to between seven and eight years. Unless the aim is the use delayed debt relief either as an instrument for punishing a previous government, or as a mechanism for reinforcing donor influence, it is difficult to understand the case for a 2002 Completion Point.**

It should be stressed that the economic and political reforms introduced in Tanzania have been far-reaching - and that progress continued in important areas during the 1994-1996 hiatus in relations with donors. Starting in the mid-1980s, radical steps were taken to liberalise trade and agricultural markets. These have been extended in the 1990s. Controls on agricultural input and output markets have been abolished, along with price controls. Restrictions on exports have been removed, full retention of export earnings has been approved, and incentives to farmers have been restored. Quantitative import controls have been withdrawn, except for petroleum products, and tariff rates dramatically reduced. They will be reduced by a further half, to an average of 15 per cent, by mid 1998. Exchange rate controls have been phased out, along with interest rate controls and restrictions on private banking.

The role of Government in the economy has been radically redefined, with an emphasis on more market-oriented approaches. A privatisation programme is now well underway, with approximately one-quarter of public enterprises having been privatised by the end of 1996, as is a comprehensive civil service reform programme. The sweeping economic reforms have been accompanied by political reforms, including the introduction of a multi-

party democracy in 1995. Moreover, the current Government has demonstrated a firm commitment to fiscal discipline, meeting all of the financial targets set under the ESAF programme and achieving recurrent budget savings equivalent to 1.3 per cent of GDP. All of this is despite the social and economic pressures generated by two successive crop failures, which have left a food deficit of 760,000 tons, reduced exports, driven up imports and slowed growth. While revenue collection remains inadequate, the Government has announced its intention to introduce a Value Added Tax in 1998, and the Tanzanian Revenue Authority has stepped-up its efforts to close tax loopholes. Tanzania, with some ups and downs, has consistently performed well according to IMF criteria. Although there have been breaks, when performance is viewed over the past 10 years, the economy and role of government has substantially altered. **In summary, to cite a recent IMF evaluation of the Tanzanian economy: "the reforms have resulted in major progress toward a market-based economy, compared with the previous substantial reliance on control mechanisms."**

Against this background, the decision to delay the possibility of debt reduction under HIPC is counter-productive and inequitable. It is counter-productive because it sends the wrong signal to Government and threatens the very economic reforms which the donor community is supporting; and it is inequitable because it is based on an arbitrary and selective interpretation of Tanzania's track record. Oxfam International proposes a new approach, in which Tanzania's Decision Point is brought forward to the end of 1998, and the Completion Point for Debt reduction to mid-1999. As part of this new framework, the Paris Club would be required to provide Naples Terms debt stock reduction by the end of 1998.

Sustainability criteria

As indicated above, realistic projections suggest that Tanzania's debt profile will remain unsustainable to 2000 and beyond. Table 3 summarises one projection based upon analysis by the Tanzanian Central Bank and submitted to the country's Consultative Group in December 1997.

table 3

Projected sustainability indicators for 2002 (NPV %)		
	HIPC Criteria	Tanzania
Debt/Exports	200-250	227
Debt/Budget Revenue	280	326

Source: Government of Tanzania

Of particular concern is the continued weight of debt servicing in the budget, for which the debt/revenue ratio is a proxy indicator. Without significant reductions, this will act as a brake on growth and poverty reduction. Under present HIPC rules, however, Tanzania will not qualify for debt relief on fiscal grounds, even if the country's debt/revenue ratio exceeds the HIPC sustainability threshold. This is because there are two additional eligibility requirements relating to the fiscal threshold. The first, is a requirement that countries qualifying for debt reduction on fiscal grounds collect the equivalent of 20 per cent of GDP in revenue. The current figure for Tanzania is around 15 per cent. Although this figure is projected to increase to 17 per cent by the end of the decade, with increased revenue collection a central element of the reform programme, this remains below the required level. The second requirement is that exports represent at least 40 per cent of GDP - more than double the level in Tanzania.

Neither of these requirements has any bearing on the fiscal burden associated with debt servicing. Rather, they are indicators of trade dependence and openness, linked by the fact that low-income countries with higher import-export levels are also likely to collect higher levels of taxes. This is because trade taxes are easier to collect than

income taxes in low-income countries with limited administrative capacity. In fact, the fiscal sustainability criteria were adopted with the express purpose of accommodating French interests in bringing Cote d'Ivoire within the HIPC framework. Because the country did not qualify on debt/export grounds, a new indicator was sought which would serve the dual purpose of opening a loophole, while excluding the vast majority of countries eligible for HIPC and facing acute debt-related budget pressures, including Tanzania.

None of this is to deny the case for financial benchmarks in determining eligibility. However, these benchmarks need to be supplemented by social indicators. Such indicators should focus on the relationship between social deprivation and fiscal capacity. In the Tanzanian context, as argued above, it is not acceptable for national efforts at poverty reduction to be undermined by the claims of external creditors. External debt will continue to absorb over 17 per cent of government revenues between now and the end of the decade. Setting a ceiling on debt servicing through effective debt reduction could release resources for priority social investments in areas such as health and education. In the Tanzanian case, a ceiling of 10 per cent on the proportion of revenue absorbed by debt should be established as an upper limit. As we show below, this would release significant resources for investment in social and economic recovery.

Of course, there is no guarantee that resources released by debt reduction would be used for poverty reduction purposes. That is why Oxfam has proposed a new initiative within the HIPC framework under which governments would be given an incentive to convert debt into social opportunity. Briefly summarised, the initiative would comprise a poverty-reduction window, with debtor governments offered accelerated and deeper debt relief in return for binding guarantees that they will transfer debt savings into poverty reduction programmes. These programmes would be agreed in advance by government, creditors and donors, who would jointly identify areas in which additional financing could result in more rapid progress towards poverty reduction. Civil society should also play a role in defining poverty reduction goals, and monitoring the impact of such measures. Compliance would be closely monitored.

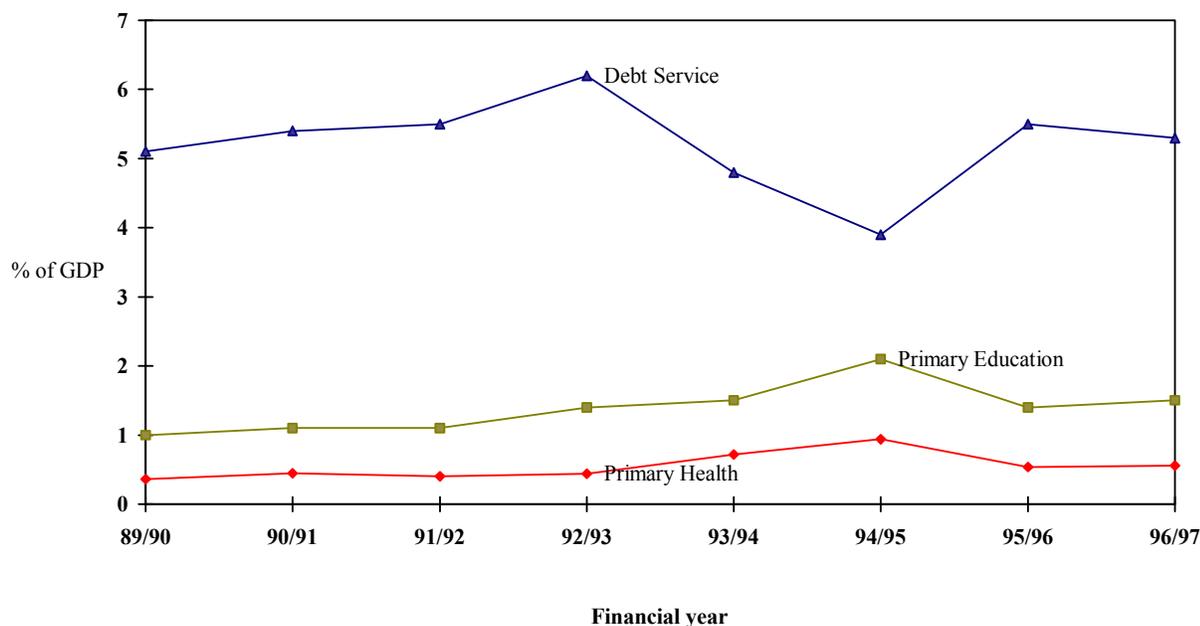
In the case of Tanzania, a framework for the implementation of such a strategy has already started to emerge. The Government has indicated that it would work with donors to identify priority social areas for investing the resources released by debt reduction. This commitment has been incorporated into its proposals for a Multilateral Debt Fund, creating an opportunity for dialogue on monitoring and conditionality. Within the social sectors, financing strategies are being developed for meeting targets for social development. For instance, the Basic Education Master Plan is an ambitious attempt to chart a course towards universal primary education, one of the key building blocks for a sustained assault on poverty and increased self-reliance. Similar sector wide plans are being developed in health through the Health Sector Reform Plan of Action. At the same time the Government of Tanzania is developing a Poverty Eradication Plan, with the involvement of NGOs, which may be able to provide a broad framework for resource allocation and monitoring. Such initiatives provide Tanzania's creditors with an opportunity for integrating HIPC into a wider strategy for human development, with tangible benefits for the poor.

Debt for poverty reduction: the case of education in Tanzania

At present, the HIPC framework is cast in narrowly defined financial terms. Yet as Tanzania experience illustrates, the effects of debt go beyond finance to impact on the lives of vulnerable households. Given the limited domestic revenues available to governments in countries like Tanzania, the claims of foreign creditors have reached alarming proportions. Indeed, for the HIPC countries as a group, public sector external debt absorbs over 40 per cent of domestic revenues. In most cases, external debt absorbs more public spending than either health or education; and in many cases it absorbs more than all of the social sector budgets combined.

figure 7

Debt Service, Primary Health and Primary Education expenditures as a % of GDP



The immediate costs of debt for human welfare and development are evident in the state of education and health facilities across the HIPC countries. Clearly, excessive debt servicing is not the only problem. But it has added to pressures associated with low economic growth, high population growth, aid dependence, and mismanagement. The longer-term costs associated with debt crowding out foreign investment are more difficult to quantify. However, there is now a growing recognition of the linkages between social investment and economic performance. Human development is not only an end in itself, but also a means to the end of higher growth, which is in turn essential to poverty reduction. This has been recognised by the OECD countries, who have set out an ambitious set of targets for halving poverty by 2015, with the achievement of universal primary education and improved health indicators identified as means to this end.

Oxfam International believes that the HIPC framework could be adapted to this poverty-reduction approach by releasing resources for investment in social priority areas. Two innovations are needed to make this possible. First, the framework itself must be extended to include human development and poverty-related debt indicators. One option, explored in more detail below, would be to set upper limits on the revenues absorbed by debt in countries which fall into the low human development category, as defined by the UNDP Human Development Index. While there are obvious problems with establishing a universal ceiling, Oxfam International believes that an upper limit of 10 per cent for debt service claims would be reasonable as an alternative to the present fiscal threshold criteria.

The second area in which reforms to the HIPC framework are required concerns the incentive structure. At present, the framework provides too little by way of reduction too late. A shorter time frame (three years rather than six) and deeper levels of debt relief (with the current thresholds lowered by around 25 per cent) are needed. One option would be to introduce this new framework as a poverty-reduction window which would be open to governments willing to allocate a large share - say, between 75-100 per cent - of the savings from debt relief into poverty reduction measures. Broad spending targets could be set on the basis of identified financing gaps for achieving agreed poverty reduction targets, in areas such as education, health, water, and rural feeder roads, with performance monitored by the donor community through the Consultative Group process. In the following section we illustrate

the potential gains which could emerge from this approach by reference to the education sector in Tanzania.

The state of education in Tanzania

Tanzania made major achievements in primary education until the early 1980s. The goal of Universal Primary Education (UPE) was declared following independence, and gross enrolment rates in primary education peaked at 96% in the late 1970s. These were remarkable levels when compared with much of sub-Saharan Africa. However, since the late 1980s there has been a serious decline in primary education standards, leading to a sharp deterioration in performance.

Enrolment rates for children of primary school age have fallen to around 75%. Even this understates the scale of the problem, since about 6 per cent of children drop-out of school annually, most of them before they have acquired basic reading and writing skills. This represents a huge source of inefficiency within the educational system. Children completing the primary education cycle typically perform poorly, with over 80 percent scoring less than 50% in the primary School Leaving Exam - and with girls achievements consistently lower than boys. Behind this bleak picture has been a relentless decline in the quality of education. Classrooms are in extremely poor condition, and teachers lack even the most basic teaching materials. Estimates of textbook allocations indicate that there is an average of 1 book per 3 students, with actual distributions to students frequently lower than this due to management problems, and generally much worse in remote areas. Over 2.7m pupils lack chairs and desks. In urban and peri-urban areas overcrowding is a significant constraint. There is serious lack of morale and motivation amongst teachers, and wages are low and do not attract qualified trainees. By 1994, only 37% of teachers were qualified to Grade A level. Nor do the problems end in the primary sector. Secondary school enrolment rates of around 5% are among the lowest in the world.

Tanzania's education deficit represents a massive barrier to efforts aimed at achieving high growth, and at converting the benefits of growth into poverty reduction. Achieving universal primary education and expanding secondary education is vital to raising productivity in agriculture and manufacturing. Early advances in girls education are especially important, both because of the high rates of economic return associated with them; and because of the associated benefits for women and children. In Tanzania, as in other countries, there are particularly strong correlations between maternal education levels and infant/child mortality rates.

table 4

Mother's Education	Infant mortality rate per 1,000 Live Births	Under-5 mortality rate per 1,000 Children
None	103	162
Primary	98	147
Secondary/Higher	72	101
All	99	154

Source: Estimates, Tanzania Demographic and Health Survey 1993

The Basic Education Master Plan

The Government of Tanzania acknowledges the crucial role of education in national development, and has developed, in co-operation with donors, ambitious plans for reform. The Basic Education Master Plan 1997-2002 (BEMP) incorporates learning from a range of government and donor initiatives, within a sectoral framework for education. Costs are estimated at \$375m. The BEMP has set clear targets for improvement in basic education for the plan period, and attempts to define mechanisms to improve basic education in a range of ways. These targets include:

- increasing gross enrolment to 85%;
- completion rates of 80% with 20% gain in student performance;
- building the education share of the recurrent budget to 25% (this will still only bring spending on education to 1994 levels);
- raising the primary education share of the education budget to 65%;
- raising the non-salary portion of the recurrent budget from 7 to 20%;
- raising average pupil teacher ratios from 36 to 45;
- institutional and management reforms,
- and an expected development budget of US\$45-60m per annum over 1997-20001.

The BEMP is not without problems. For instance, it envisages cuts in the real wages of teachers and massive retrenchments at a time when morale in the teaching profession is low, and when the intake of trainee teachers has fallen. The plan itself acknowledges that there are also resource gaps in the recurrent budget which must be addressed if the quality of education is to be increased. These amount to around \$15m per annum. Given that the appalling quality of education is one of the main factors behind low enrolment rates, as well as poor student performance, this issue is clearly of critical importance. Yet with external debt continuing to claim such a large share of government revenue, it is difficult to see how the resource gap can be bridged in the absence of a reduction in debt. Another difficulty, and source of considerable controversy, concerns parental contributions to basic education. The World Bank and some donors are powerful advocates of the principle that parents should meet some of the costs of primary education through community financing. In practice, public spending on education has forced parents to meet a growing share of the costs of education, prompting the Bank to cite this as evidence of a 'willingness to pay'. However, Oxfam's experience is that educational costs are already imposing extreme hardship on poor households, excluding many of them from the educational system (see Box). This raises the question of whether or not the BEMP should endorse the principle of community financing, or seek to establish free universal primary education, as the government of neighbouring Tanzania has attempted to do.

Sending home the children. What price for Tanzania's future?

Uhuru Primary School in Shinyanga town is a large and well built school, and being an urban school it is better resourced than its rural counterparts. Oxfam has been supporting the school, and in particular, children with learning difficulties through the local Haruma organisation. The school has 962 pupils enrolled, and there are 10 classrooms. Shella Mandina is the Head-teacher at Uhuru, and in her view the school is desperately under-resourced. "We don't have enough classrooms for all those who want to come. We have to turn some parents away, on a first come, first served basis... The school fee is Tsh1,000 for the year, with Tsh1,000 for sports... On first enrolling in Standard 1, parents should also pay Tsh6,000 towards the price of a desk - though some parents can't pay it all at once... We just have to remind the parents, we have to remind them and remind them."

Much of Shella's work is spent on administration, in particular collecting school fees. "The Town Director is really putting on pressure. We have to follow the 962 children. We have to go into classrooms to read out the names of

those who are to be sent home. If I don't take money to the Town Director, he stops my salary... Even last month [January 1998] my salary was delayed a week. The same thing is happening everywhere. We waste so much time on this."

In Shinyanga, things have become worse following the drought of 1996/7 and the floods of 1997/8. The school has tried to raise money for the building fund. "Now life is very tough after the drought and now El Niño floods. We haven't asked the 1998 intake for the Tsh2,000. It is difficult to collect the school fees. Last year over 300 did not pay. Now they have to pay for last year as well as this year. For this year about 250 have paid and 750 not... So we have to remind the parents by sending home their children during the morning. Usually they are sent home once a month; we hope they might have money at the end of the month."

One parent who has children at the school is Mwange, she has four children, and one of them, Ramdwa, goes to Uhuru. Another child, Sada, goes to Jomu school because Uhuru was full, and Mwajuma and Saidi are still too young for school. Mwange is one of Tanzania's many business women. She sets up a small stall from morning to evening each day, selling tomatoes, onions, ginger, lemon and local soap. She'd like to expand to selling maize, rice, cooking oil, kerosene, salt and better soap, but does not have the money to expand. Mwange knows the value of education, "I want my children to have an education," she said, "It is important for the girls. It will help them get work, to earn their own living and be able to take care of their family - like I do now. I went to Standard VII. Education has brought light to my mind, to help me take care of my children, to keep them healthy."

Educating Ramdwa and Sada is not easy. "It is difficult for me to pay the school costs. It is expensive at enrolment.. Ramdwa needed a new uniform this year. That was Tsh5,000, without shoes, they are expensive... Sada's uniform is almost as much." Mwange also has to pay school construction fees of Tsh2,000 for Uhuru and Tsh3,000 for Jomu, and this is along with enrolment fees, desk costs and so on. "The school sends Sada home because I haven't paid... For that day, in fact it was two days, she just stayed at home. The head-teacher said she had to go back with Tsh1,000, and it took me two days to collect it. Sada's very keen on school, so she was disappointed for those two days. She wants to be at school. Ramdwa was sent home too, one morning. She stayed home for three days, and went back with Tsh1,000, like Sada. They have to return with the money... It would be much easier for the parents if the government would pay for primary education, so that all the children could go without worrying."

For families who can't afford these costs, the price that is eventually paid is the price of lost education for their children, lost gains in health and future welfare, and for Tanzania ultimately lost gains in the economy.

Debt relief and resourcing basic education

How could a reformed HIPC contribute to the successful implementation of the BEMP? The answer to this question clearly depends on the scale of the resources released and how effectively they are utilised. What is clear, however, is that debt reduction could not only help finance the BEMP, but would also accelerate its implementation.

Table 4 illustrates the savings which could be achieved by setting a 10 per cent cap on the proportion of government revenue allocated to debt servicing. Such a ceiling would save around \$189m in the present financial year and \$169m annually over the next five years. If 60 per cent of these savings were allocated to primary education (in line with the existing 60/40 ratio of per capita expenditure on primary education and primary health), it would enable the recurrent budget for primary education to double, and to increase the secondary school recurrent budget by around 40 per cent.

table 5

Debt service/revenue projections and savings from a 10 per cent budget cap (US \$ millions).

	1997	1998	1999	2000	2001	2002
Revenue Projections (Tsh.bn)	563	672	781	890	999	1,108
Revenue Projections (US \$m)	859	1,026	1,192	1,359	1,525	1,692
Debt service projections	275	275	320	310	310	310
Debt service at 10% of revenue	86	103	119	136	152	169
Savings	189	172	201	174	158	141

Source: IMF/World Bank, and using an exchange rate of US \$1 @ 655 Tsh

Situated in the broader context of the BEMP, the savings from 10 per cent fiscal cap and the transfer of 60 per cent of the funds released into education would generate \$328m over the five years of implementation. Translating this additional finance into outcomes, Oxfam International estimates that it would be possible to:

- **Implement the BEMP over a period of three-and-a-half years, rather than five years,**

Or,

- **Alternatively, to retain the five year time-frame, but use the additional resources released by debt reduction to:**

- **repair and refurbish an additional 10,000 classrooms (\$20m)**
- **provide safe water and sanitation at an additional 5000 primary schools (\$5m)**
- **double the budget providing services to disadvantaged groups such as the disabled, drop-outs and illiterate adults (\$20m)**

Or,

- **Raise the Gross Enrolment Rate from the 85 per cent envisaged for 2002 under the Basic Education Master Plan, to 95 per cent, creating a platform for achieving high quality universal primary education by 2005.**

We stress again that these are indicative dimensions of what could be achieved. In practice, priorities and targets would have to be determined in dialogue between the Tanzanian Government and civil society on the one side, and between both of these actors and the donor community on the other. In the case of education, where donor involvement is extensive, such a dialogue already exists, despite problems of co-ordination and differences in approach.

There would also be scope for co-operation in other sectors. For instance, the Policy Framework Paper agreed between the Tanzanian Government and donors for health sector reform over the three period 1996/97-1998/99 envisages a sustained increase in spending on preventative health care, with a focus on rural areas. Once again, however, there are significant resource gaps. Some indication of the extent to which debt relief could close these gaps is provided by the fact that the transfer of just 40 per cent of the savings from a 10 per cent revenue cap on

debt payments would enable the Government to double health expenditure. The potential benefits would be realised in terms of reduced infant mortality, increased life expectancy, and rising productivity. This is why Oxfam International has called on the Tanzanian Government's Debt Task Force to prioritise the development of a strategy for converting debt into social sector investment. However, creditors also have an obligation to reform the HIPC framework in a manner which provides incentives for action in this area, and which delivers more substantial levels of debt relief.

Poverty reduction from debt relief

- ⇒ Debt savings for 1996/7 could more than treble the primary education recurrent budget for the same year.
- ⇒ Total health recurrent expenditure could be almost four times current levels using debt savings for 1996/7.
- ⇒ Debt savings for 1996/7 could almost double total education, health and water budgets; both recurrent and development.
- ⇒ Debt savings for 1998-2002 could ensure that the Basic Education Master Plan is implemented in just over 3 years instead of 5, and in addition, another 10,000 classrooms could be repaired, safe water and sanitation could be provided to an additional 5,000 schools, and assistance to disadvantaged groups doubled.
- ⇒ Debt savings for 1998-2002 could increase gross enrolment in primary school from the current level of 75% to almost 95%.