


Chapter 4

Credit Risk Beyond Debt Sustainability: The Case of Public Infrastructure Projects Funded Through Loans in Tanzania

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ABSTRACT

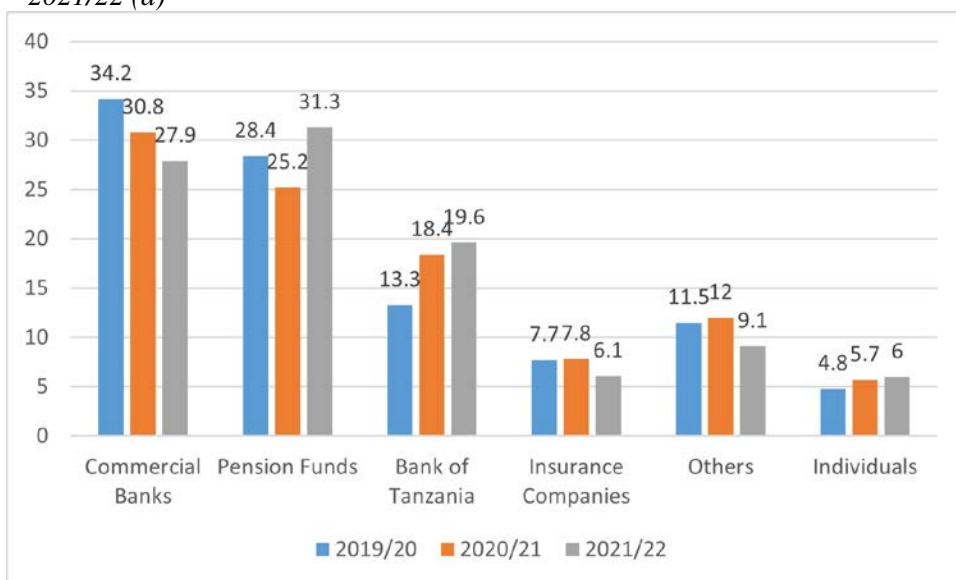
This chapter presents evidence from empirical analysis which highlights the importance of other credit risks (CRs), in addition to concerns solely based on debt sustainability thresholds. Core CRs identified in the chapter include mismanagement of borrowed funds in the course of execution of infrastructure projects funded through loans. These CRs led to a number of loan performance problems hindering overall intended outcomes, and development impact. This eventually plunged the country to moderate risk to debt distress. The chapter findings point main CRs start at early stages of the project during design and appraisal stages, with implications during implementation stages. Inadequate technical capacity among technical personnel, omissions of key provisions in loan contract arrangements, inadequate oversight, quality assurance and procurement management led to substandard and incomplete works, project delays, cost overruns contributing to rising public debt. The chapter raises concerns and calls for greater attention to CRs which befall implementation of projects funded through loans.

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1. INTRODUCTION

The total debt stock (TDS) for Tanzania by 31 June, 2022 stood at USD 26.4 billion (CAG, 2023).¹ TDS comprises of domestic and external debt. The total domestic debt came from various sources as shown by Figure 1.

Figure 1. Total Public domestic and external debt by Source in TZS Billions 2019/20 – 2021/22 (a)



Source: Ministry of Finance and Planning, and Bank of Tanzania

The proportion of external loans to TDS on the other hand was also significant. External loans stood at USD 17.6 billion as of June 2022.² This translated to a 4.1% increase from June, 2021 (URT-MoFP, 2022). A major concern for both domestic and external loans lied in the sharp increase in the proportion of non-concessional external commercial creditors over traditional concessional multilateral and bilateral creditors (MTDS, 2021).³

Overall, public debt had been consistently increasing in the medium-term and, although external debt was still higher, the proportion of domestic debt was slightly increasing compared to external debt as shown by Figure 2.

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