Ex Post-Evaluation Brief
Tanzania: Debt Repurchase Programme

Programme/Client	Debt Repurchase Programme BMZ ID 1998 65 551	
Programme executing agency	Ministry of Finance Tanzania	
Year of sample/ex post evaluation report: 2009*/2011		
	Appraisal (planned)	Ex post-evaluation (actual)
Investment costs (total)	EUR 41.0 million	EUR 9.9 million
Counterpart contribution (company)	EUR 27.7 million	EUR 6.5 million
Funding, of which budget funds (BMZ)	EUR 13.3 million	EUR 3.4 million

* random sample

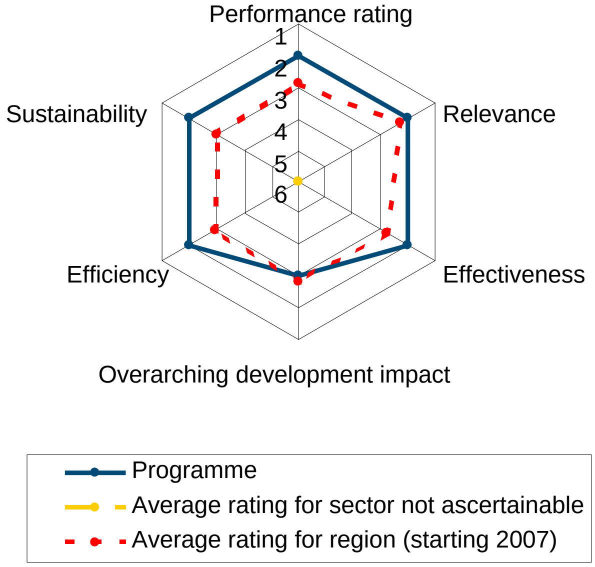
Project description: The programme supported the legally binding repurchase of the commercial foreign debts of the Tanzanian state through its central bank to place the national debt structure on a viable footing as part of a comprehensive debt relief strategy also including debts to public creditors. Launched at the end of the 1990s under the auspices of the World Bank, it was aimed at those commercial claims on Tanzania that arose at the time of foreign exchange control before 1990 and entered default at the beginning of 1994. The programme was to facilitate the repurchase of a maximum possible share, not less than 65%, of eligible claims whose nominal amount at programme appraisal was estimated at US$ 228 million plus interest arrears and penalties of US$ 232 million. The repurchase value was set at US$ 0.12 per US$ 1 of nominal debt. Interest arrears and penalties were to be borne in full by the participant creditors. As the amount of eligible claims initially proved to be even higher, a considerable ratio could be derecognised without repurchase and Tanzania could be freed from debt, only US$ 98.3 million in nominal debt of some 205 creditors was actually repurchased. This explains the much lower costs of altogether US$ 10.3 million, of which the German side bore US$ 3.4 million.

Objectives: The programme objective was: Substantial and sustainable reduction of overdue commercial debts of Tanzania not falling under other arrangements for debt rescheduling. This was to contribute to a long-term, viable government debt structure to support Tanzanian efforts in development and poverty reduction (overall objective adjusted at ex-post evaluation).

Target group: No target group was specified at programme appraisal. Although the measures were clearly directed at the commercial creditors of Tanzania, who can, however, hardly be designated as a target group as they had to accept a considerable remission of their debt claims themselves by taking part in the programme. The beneficiaries of the programme therefore were the government and indirectly the population of Tanzania.

Overall rating: 2
The reduction of foreign commercial debts was of high relevance as part of the debt relief strategy. Accounting for the amounts owed that were derecognised without repurchase, the objective was successfully achieved, as, based on realistic assumptions on the collection of the remaining debt, the defaulting debts were reduced by approx. three-quarters and Tanzania has been on a stable development path since its debt relief, even though large challenges still remain in poverty reduction.
Of note: The uncertainty about the existing claims, so that a large part of the programme contribution was the clarification of eligible claims and the de-recognition of defunct claims without repurchase.

Rating by DAC criteria



EVALUATION SUMMARY

Overall rating: Owing to the high relevance of the programme aim of substantially reducing commercial foreign debt, based on both a realistic and careful estimate, at extremely low costs and the sustainable debt relief for Tanzania so far and in the foreseeable future to a manageable level, programme performance is assessed as good. **Rating: 2**

Relevance: At programme start, Tanzania numbered among the poorest highly-indebted countries that in general opinion could only be returned to a stable development path through debt relief. In hindsight, the core problem of the programme was therefore correctly identified and the intervention point would be the same today. The results chains were plausible: The cancellation of commercial loans was a necessary component of the debt relief strategy to reduce the indebtedness of the Tanzanian state to a manageable level and restore its financial scope for pursuing its development and poverty reduction strategy. The objectives of the programme met the needs of partner country policy, its global development goals and the basic development policy strategy of the Federal Government, not only at the time but also from today's standpoint. The programme was coherently aligned with overall programmes and institutions, above all the general strategy for debt relief for Tanzania, which included bilateral and multilateral debts as well and was also appropriately coordinated with the World Bank as lead agency for the programme under evaluation for impaired foreign commercial debts and also the participant Swiss Seco. We therefore assess relevance as good (Sub-rating: 2).

Effectiveness: The programme objective was: Substantial and sustainable reduction of overdue commercial debts of Tanzania not falling under other arrangements for debt rescheduling. Objective achievement was to be measured with the following indicator (as defined more precisely in ex-post evaluation):

- At least 65% of the overdue commercial debts eligible for repurchase was redeemed, i.e. repurchased or derecognised.

The part of the debt that could be 'redeemed' under the programme, i.e. either repurchased or finally settled in another way (derecognition, e.g. because the creditors no longer pursued their claims) and can no longer be claimed in future ranges between approximately over 70% to almost 90% of all claims of prospective eligible creditors. This success is largely attributable to the clarification of the claims and only in part to debt repurchase. The programme objective indicator was thus met. A positive side effect was the clearance of accounts, because before programme start the portfolio of defaulting liabilities of the Tanzanian Government to commercial foreign creditors evidently included numerous unclear claims (Sub-rating: 2).

Efficiency: Measured by the results achieved, the input was not only warranted but exceptionally low compared with the total commercial debt settled. At an effective cost of between 2 and 5 cents per US dollar in cancelled debts (depending on whether this is based on nominal debt or also includes the interest arrears and penalties), the costs of the programme are small compared with similar programmes; more favourable alternatives are almost inconceivable. The merit of the programme lies in accounts clearance and finally the debt cancellation of a considerable portion of external debts also without repurchase. Though at first surprising, the small amount repurchased has not had an adverse effect on the success of the programme; on the contrary, it increased its efficiency, despite poor fund allocation planning (Sub-rating: 2).

Overarching developmental impact: The overall programme objective (revised at ex-post evaluation) is as follows: The national debt structure is viable in the long term and supports Tanzania's efforts in development and poverty reduction. The indicators applied to measure objective achievement were the debt capacity of Tanzania as estimated by the IMF and World Bank and standard yardsticks for assessing national debt. Indicators for poverty reduction and other MDGs were adduced to assess national progress in development.

The overarching developmental impact of the programme lies in its contribution to viable indebtedness and a sustainable debt structure as a contribution to poverty reduction. Debt structure, debt capacity and debt management have much improved in the last ten years thanks to the commitment of the government to good governance and budgetary discipline. Government-guaranteed foreign debt amounted in 2009 to only nearly a quarter of the figure in 1992. The foreign debt of Tanzania is generally rated favourably today by the IMF and World Bank and there is little risk of another debt crisis. The resultant financial scope afforded Tanzania has only resulted in limited poverty reduction till now, however. Major poverty indicators have improved since programme start but they are not much better than in 1992, that is, before their deterioration in the course of the economic downturn in Tanzania that ultimately prompted the debt relief measures. About 73% of the population, for example, still live on less than US$ 1/day (1992: 68%). Income distribution has even deteriorated somewhat since 1993 from 0.34 to 0.38.

The repurchase programme is not expected to create disincentives by inducing indiscipline in entering into new commercial indebtedness, as the programme under review aimed solely at debts incurred in the course of foreign exchange control, where private creditors settled their commercial debts in foreign currency through payments in local currency to the central bank, which did not convert these into foreign currency and then remit them to foreign creditors. With the abolition of foreign exchange control, this can no longer occur and there is no indication today that the Tanzanian economy is deprived of access to international credit due to debt relief.

For the above reasons, we assess the overarching developmental impacts as satisfactory altogether (Sub-rating 3).

Sustainability: Debt relief and reduction to a manageable level have proved effective in the medium term and have been translated by the Tanzanian Government into economic growth. The country has demonstrated a clear and convincing will to reform ('showcase'). We cite the initial statement of the latest budget estimate of the donor community in Tanzania from November 2011: "By all standards Tanzania is still a good macroeconomic performer with 6-7% growth and relatively stable external and fiscal balances." The IMF and World Bank see Tanzanian indebtedness as sustainable in the long term. Commercial debt does not in their view pose a risk at this point in time, although the government still needs to pursue prudent debt management to continue to make progress. The debt cancellations under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), which must be seen in conjunction with the measure under evaluation here, are rated as generally successful. The recent sharp increase in short-term debt and long-term, non-public debts is generally thought to be the result of the international economic crisis that also made itself felt in Tanzania. It is also attributable to recommendations by IMF to raise expenditure in support of the economy in the downturn and does not yet give cause for acute concern in the assessment of the IMF and World Bank, but does underline the need for the close management of indebtedness in future as well (Sub-rating: 2).

Notes on the methods used to evaluate project success (project rating)

Projects (and programmes) are evaluated on a six-point scale, the criteria being relevance, effectiveness, efficiency and overarching developmental impact. The ratings are also used to arrive at a final assessment of a project's overall developmental efficacy. The scale is as follows:

1	Very good result that clearly exceeds expectations
2	Good result, fully in line with expectations and without any significant shortcomings
3	Satisfactory result – project falls short of expectations but the positive results dominate
4	Unsatisfactory result – significantly below expectations, with negative results dominating despite discernible positive results
5	Clearly inadequate result – despite some positive partial results, the negative results clearly dominate
6	The project has no impact or the situation has actually deteriorated

Ratings 1-3 denote a positive or successful assessment while ratings 4-6 denote a not positive or unsuccessful assessment

Sustainability is evaluated according to the following four-point scale:

Sustainability level 1 (very good sustainability) The developmental efficacy of the project (positive to date) is very likely to continue undiminished or even increase.

Sustainability level 2 (good sustainability): The developmental efficacy of the project (positive to date) is very likely to decline only minimally but remain positive overall. (This is what can normally be expected).

Sustainability level 3 (satisfactory sustainability): The developmental efficacy of the project (positive to date) is very likely to decline significantly but remain positive overall. This rating is also assigned if the sustainability of a project is considered inadequate up to the time of the ex post evaluation but is very likely to evolve positively so that the project will ultimately achieve positive developmental efficacy.

Sustainability level 4 (inadequate sustainability): The developmental efficacy of the project is inadequate up to the time of the ex post evaluation and is very unlikely to improve. This rating is also assigned if the sustainability that has been positively evaluated to date is very likely to deteriorate severely and no longer meet the level 3 criteria.

The overall rating on the six-point scale is compiled from a weighting of all five individual criteria as appropriate to the project in question. Ratings 1-3 of the overall rating denote a "successful" project while ratings 4-6 denote an "unsuccessful" project. It should be noted that a project can generally be considered developmentally "successful" only if the achievement of the project objective ("effectiveness"), the impact on the overall objective ("overarching developmental impact") and the sustainability are rated at least "satisfactory" (rating 3).