

*Neue Wege in der Entwicklungszusammenarbeit: Budgethilfe als effektiver Beitrag and die Millenniums-Entwicklungsziele?
Nouvelles voies pour la collaboration au développement :L'aide budgétaire – une contribution efficace aux Objectifs du Millénaire ?
New Paths for Development Cooperation: Budget Support as an Efficient Contribution to the Millennium Development Goals?*

Statement by Hon. Zakia Hamdani Meghji (MP), Minister for Finance of the United Republic of Tanzania: The Contribution of General Budget Support to the Development Process in Tanzania

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Excellencies,
Director of SECO and State Secretary of Switzerland,
Permanent Secretaries to the Treasury, the United Kingdom
Ambassadors,
Heads of Development Agencies / Organizations
Members of the Press,
Ladies and Gentlemen.

Introduction

1. It is a great pleasure for me to have been invited to attend this International Symposium on General Budget Support (GBS) today and share with you Tanzania's experience in implementing the GBS system. It is unfortunate that I will not be able to be with you physically since the symposium has collided with the dates when the Tanzania Parliament is sitting o deliberate on the National Budget for the Financial year 2006/07. It is my sincere hope that the following information will inform you on Tanzania's experience in the implementation of GBS.

Basic Facts about Tanzania

2. As you would be informed, the United Republic of Tanzania (URT) is one of the sub-Saharan Africa countries, consisting of mainland and the islands of Zanzibar with total area coverage of 945'000km² and a population of approximately 34 million people (2000). The per capita gross national income of 2000 was US\$ 280 while the real Gross Domestic Product (GDP) has maintained an upward trend from 4% in 1998 to 6.7% expected in 2006/07. Agriculture contributes about 50% of the GDP.

Tanzania's Development Efforts

Ladies and Gentlemen,

3. Tanzania gained its independence in 1961 and entered the Fourth Phase Government in December 2005 whereby the CCM candidate His Excellency Mr. Jkays Mrisho Kkwete won the national election and became the fourth President of the URT. The main responsibility of the new Government as stated by the President while inaugurating the new Parliament and I quote: **"First is to lift Tanzania from a backward and dependent economy to a modern, self-sustaining economy; and second to empower the people so that they can participate in economic activities and in eradicating poverty"** end of quote.

4. The above responsibility of the Fourth Phase Government which is embodied in the CCM Election Manifesto reflects its strong commitment to continue with the implementation of the national development and poverty reduction strategies as guided by the Tanzania Development Vision 2005 and, the Zanzibar Vision 2005 through: National Poverty Eradication Strategy (NPES), National External Debt Strategy (NEDS), Poverty Reduction Strategy (PRS) and the Zanzibar Poverty Reduction Plan (ZPRP) and their successors the National Strategy for Growth and Reduction of Poverty (NSGRP o MKUKUTA in Swahili) and Zanzibar Strategy for Growth and Reduction of Poverty (ZSGRP), as well as the Millennium Development Goals (MDG).

5. In line with these national strategies, Tanzania has sustained a strong macroeconomic performance characterised by a strong Gross Domestic Product (GDP) growth and low inflation. Fiscal discipline and prudent monetary policies have played major roles in the Government's strategy for achieving macroeconomic stability.

6. The country has recently experienced adverse food production and hydropower generation shortage due to drought, which coupled with the persistent increase in oil prices, exerted upward pressure on inflation. The successfully kept inflation rate of about 4% increased to 6.5% in March 2006. **Some recent macroeconomic performances** are outlined below:

- The Government introduced modern and transparent ways to monitor public expenditure and to manage the entire budgetary process, out through per PER process and the integrated Financial Management System (IFMS).
- Starting in FY 2005/06 budget the Government, through the Budget Guidelines, linked budgets for Ministries, Departments and Agencies (MDAs) with MKUKUTA using a user-friendly Microsoft-Access software tool called the Strategic Budget Allocation System (SBAS). During 2006/07 Budget Preparation, Regions were also allocated resources using SBAS and Local Government Authorities' (LAGs) budgets have been linked with MKUKUTA.
- The Government aims at increasing domestic revenue from the current level of 14.3% of GDP to 20% in the mid-term – through Micro, Small and Medium Enterprises Project (MSMEs) promoting development of a strong and competitive private sector by reducing the cost of doing business.
- Domestic revenue mobilisation will also benefit from the Property and Business Formalization Programme (PMFP or in Swahili MKURABITA) as well as from reviewing tax exemptions and developing National Identity Cards to assist curbing tax evasion.

- Tanzania introduced a Mini-Tiger Plan (TMTP) 2020 by adopting the East Asian Economic Development Model – competitive business environment for the attraction of FDI as well as local investment to Special Economic Zones.

7. Despite the macroeconomic stability achieved so far, the prevalence of income poverty is still high in Tanzania. In general, poverty is a rural phenomenon where about 90% of the poor population lives, nevertheless, the ongoing implementation of the MKUKUTA which has also aligned Millennium Development Goals (MDGs) and for which the General Budget Support modality plays an important role, would significantly address the afore-said concerns over the next five years.

Ladies and Gentlemen,

8. The Tanzania Government has made progress in strengthening **public expenditure management** with the view to minimize fiduciary risk as indicated below:

- The Public Finance Act No. 6, 2001, Part II on Control and Management of Public Finance empowers the Parliament to maintain control over public money while the Minister for Finance provides full and transparent accounts to Parliament for all public accounts.
- Public funds are managed by opening up of sub-treasuries at the regional level, transferring funds from central direct to beneficiaries in LGAs (e.g. councils, schools and clinics) not through related sector ministries.
- Setting up Tanzania's accounting system (IFMS/EPICOR) to monitor public expenditure on a daily basis enhances recording of expenditure information and linking central government with sector ministries, sub-treasuries, Regional Administrative Secretaries (RAS) and LGAs. It is intended that all LGAs be linked with IFMS in the medium term.

Ladies and Gentlemen,

9. In relation to the improvement of public service delivery, the Government has strengthened governance and accountability with the view to minimise resource leakage and improve service delivery.

10. The Government continues to make measures against corruption through the National Anti-Corruption Strategy and Action Plan (NACSAP) coordinated under the President's Office, Good Governance Coordination Unit (GGCU). The Prevention of Corruption Bureau (PCB) as Government's independent agency oversees the compliance of such a strategy. In addition, there are on-going reforms including Public Financial Management Reform Programme (PFMRP), Local Government Reform Programme (LGRP) and Public Service Reform Programme (PSRP) implemented in order to enhance the institutional capacity within the Government.

11. In addition, governance and accountability are monitored under the new Performance Assessment Framework (PAF) in the area of Public Financial Management specifically timeliness of quality auditing and value for money procurement. Transparency and accountability on donor funds management has been and will continued to be assured through the Independent Monitoring Group (IMG) reviews on Tanzania Assistance Strat-

egy (TAS) and the Joint Assistance Strategy for Tanzania Implementations on good practices for effective foreign aid management.

Ladies and Gentlemen,

12. The Government recognises the pivotal role of the private sector with a view to transforming the economy into a private sector-led economy through the following ways:

- Promotion of both foreign and local investments in the country by the Tanzania Investment Centre (TIC);
- Implementation of Business Environment Strengthening for Tanzania (BEST) an enabling environment through improved administrative, regulatory and legal framework; and
- Establishment of Sector Regulatory Authorities that regulate, monitor and enforce compliance with the regulatory framework of privatised enterprises.

Ladies and Gentlemen,

13. The Tanzanian Government has improved the external resource management in relation to development cooperation between the Government and Development Partners. This effort has been lead by the Tanzania Assistance Strategy (TAS).

14. TAS was a medium term framework for promoting local ownership and development partnership implemented from 2002 – 2005. It promoted aid effectiveness though national ownership and government leadership, more use of Government system (Exchequer system) for budgeting and disbursement of donor funds thereby ensuring reduction of transaction costs.

15. Although significant progress in aid coordination has been made, it has been necessary to further strengthen aid effectiveness in order to facilitate attainment of MDGs and NSGRP as well as Zanzibar Poverty Reduction Plan (ZPRP).

16. In order to respond to this requirement, the **Joint Assistance Strategy for Tanzania (JAST)** was developed as successor of TAS. The JAST is a five-year framework for guiding development cooperation between the Government and Development Partners in providing aid by identifying several principles. These principles are related to the use of GBS, division of labour, use of technical assistance, risk mitigation, dialogue as well as Monitoring and Evaluation. JAST further improves TAS in its comprehensiveness involving wider stakeholders especially political actors and non-state actors, as well as Zanzibar Revolutionary Government as part of the URT. The Strategy clearly indicates that the Government's preferred aid delivering modality is GBS, for which 14 DPs have signed a Memorandum of Understanding (MOU). JAST is expected to be implemented starting FY 1006/07.

Ladies and Gentlemen,

17. Tanzania has embarked on measures to address challenges towards expanding public services in the light of the MDGs.

18. The Government remains committed to implementing the PSRP. The reform strategy focuses on attracting and retaining better qualified staff and strengthening human resource capacity. This will be achieved through the Government's long-term plan of capacity building as well as pay reform which is performance oriented.

19. The Government recognises that staff compensation in the public sector does not match with the levels offered in the market. In this regard, the Government is making deliberate efforts to adjust salaries to levels relatively comparable with market rates. Further, the Government is committed to ensure the following in the medium-term:

- Strengthening the Public Service Wage Commission Board to spearhead the pace of pay reform;
- Strengthening the role of MDAs in Human Resource Management (HRM), including Budgeting for Personal Emoluments (PE);
- Continuing with efforts to integrate Planning and Budgeting process (PMS – Poverty Monitoring System & MTEF – Medium-Term Expenditure Framework) as well as Monitoring, Evaluation and Reporting Mechanism; and
- Embedding Accountability Framework through the Open Performance Review Appraisal System (OPRAS).

Tanzania as an aid recipient country

Ladies and Gentlemen,

20. Tanzania reached the High Indebted and Poor Country (HIPC) completion pointing 2001 after the Poverty Reduction Strategy (PRS) became fully approved in 2000. This led to its access to the HIPC debt relief initiative.

21. Aid contribution including debt relief to the National Budget since FY 2002/03 to 2006/07 is ranging from 36.8% (2003/03) up to 45.9% (2006/07), which necessitates the importance of effective aid management.

22. Aid in Tanzania is provided in mainly three modalities, namely direct project funds, Basket Funds and General Budget Support (GBS). GBS, which is the preferred aid delivery modality in Tanzania, has the following advantages:

- **It is fully fungible**, allowing full use of the Government budget processes and procedures, thereby enhancing transparency and accountability of public expenditures.
- It is the only aid delivery instrument that is **consistent with the Government budget process and legal framework**. Pursuant to the Constitution of the URT all government finances have to be deposited in the Consolidated Fund and appropriations from the Fund have to be authorized by the Parliament.
- **Enhances the predictability of aid**, which is mainly disbursed during the first half of the financial year.
- It is **consistent with the international aid agenda**, i.e. the Monterrey (2002), Rome (2003), Marrakech (2004) and Paris (2005) commitments on financing for development, harmonisation, managing for results, and aid effectiveness respectively, as well as principles under Tanzania Assistance Strategy (TAS) and Joint Assistance Strategy for Tanzania (JAST).

- **Promotes government accountability to Tanzania citizens** shifting from the Development Partners.
- **Reduces transaction costs** by using one MoU and one joint annual review for all fourteen current GBS participating partners.
- **Provides space for the Government** to manage its business with the agreed priorities.
- **Builds government capacity** by making use of existing structures and systems.

Ladies and Gentlemen,

23. Basket funding has played a big role in financing core public reform programmes and development activities at the sector level. However, during implementation, the following shortcomings have been experienced:

- Have created unnecessary parallel implementation and management systems and structures as well as financing mechanisms, thus adding transaction costs.
- Have limited degree of Government ownership over resource allocation across and within sectors.
- Lack of complete and comparable information across sectors thus creating double funding of activities.

24. Direct project funding of development expenditures has demonstrated the following effects:

- Many Government agencies with access to financing channels that largely bypass and undermine the national budget process.
- Has failed to ensure rational priorities in resource allocations, ownership and leadership.
- Projects have often lacked transparency where Government and other domestic stakeholders have not been fully informed about their implementation status.
- Has been more unpredictable than other modalities, as it depends on implementation progress that is difficult to bring in line with the national budget calendar.
- Project Implementation Units (PIUs) operate parallel to Government systems and structures hence undermining Government structures and systems and prevent sustainability.

25. In respect of the aforementioned advantages of GBS and limitations of other modalities, DPs are argued to move to GBS from other modalities and adhere to criteria of **“good practice”**.

26. Despite improved flow of external aid, the Government recognizes the inherent risk emanating from the increased donor dependency. However, the risk of abrupt donor withdrawal appears rather remote due to the observed high donor commitment to support the Government’s poverty reduction initiatives. The shared vision is best demonstrated by the DP’s support for the JAST.

27. Meanwhile, Government’s efforts are underway to put in place a medium to long-term exit strategy aiming at considerable reduction of this dependency. This includes:

bringing the informal sector into the tax net and reviewing tax policy in order to reduce exemptions and increase domestic revenue; develop the domestic financial markets which will facilitate Government borrowing from local markets; and attract more FDI and capital flow in the country.

Tanzania's experience with GBS

Ladies and Gentlemen,

28. Introduction of Budget Support modality in Tanzania dates back to the 1990s when like-minded DPs supported the Multilateral Debt Fund (MDF). Among the pre-requisites for the enhanced HIPC debt relief is for a country to have an IMF/World Bank programme with an established good track record of economic management and debt services particularly to the Multilateral Financial Institutions (MFIs). The MDF was therefore established to assist the Government in meeting MFIs debt services obligations, without cutting financing to ongoing programmes and to social sectors. Eight development partners, namely the United Kingdom, Sweden, Switzerland, the Netherlands, Norway, Ireland, Finland and Denmark contributed funds to the MDF.

29. The successful macroeconomic management track paved the way for Tanzania's enhanced HIPC debt relief and the subsequent PRS 2000. The PRS provided the framework for coordinating and channelling resources for growth and poverty reduction with clear targets, till the review of its three years of implementation which culminated with the formulation of the second generation PRS, the MKUKUTA.

Ladies and Gentlemen,

30. Poverty Reduction Budget Support (PRBS) facility was initiated during the FY 2000/01 as a follow-up to the MDF to support the implementation of the PRS. It aimed at providing resources to the Government consolidated fund account so that the deficit of domestic resources could be covered.

31. Tanzania's **first PRS originally focused on the seven priority areas**, namely, basic education, health, water, rural roads, agriculture, HIV/AIDS, good governance. Law and order, lands and energy were added later. In this regard, PRBS proved to be a useful funding modality whose allocation was determined according to government priority, i.e. PRS priority areas.

32. Regarding the institutional set-up, the Government and PRBS partners signed the PRBS MOU, called **Partnership Framework Memorandum in 2002**. Under this framework, two semi-annual reviews were conducted with participation of the Government and DPs.

Ladies and Gentlemen,

33. During the FY 2005/06, the Government and DP developed the development of the new "**Partnership Framework Memorandum (2005 – 2010) governing General Budget Support (GBS) for Implementation of MKUKUTA**". The new PFM is more in line with

Tanzania's second generation of PRS, namely MKUKUTA, which takes an outcome-based, multisectoral approach with more attention to economic growth and mainstreaming crosscutting issues.

Ladies and Gentlemen,

34. The 14 partners supporting GBS modality consist of eleven bilateral partners (Canada, Denmark, Finland, Germany (KfW), Ireland, Japan, Norway, the Netherlands, Sweden, **Switzerland**, the United Kingdom) and three multilateral partners (African Development Bank, European Union and the World Bank). In the FY2002/03, Tanzania received 277 million US\$ under GBS modality, while 515 million US\$ are expected this Financial Year 2005/06.

Ladies and Gentlemen,

35. Tanzania's improvements would not have been achieved without understanding and cooperation by the DPs, including Switzerland among the like-minded DPs who continuously support Tanzania's development efforts.

36. While the Swiss Country Programme Support for Tanzania for the period 1999 to 2003 focused on economic management, health and infrastructure and transport, its current Country Programme for Tanzania for the period of 2004 to 2010 focuses on economic growth, especially areas of private sector development, social well-being in terms of health and water sector supports, and governance in support of civil society.

37. Swiss support to GBS continues for more than two decades, first under the **Balance of Payment** (BoP) support during 1987 to 1992, 1996 to 1997 in total CHF 36.9 million. Under the PRBS and GBS facilities in 2000, its contribution reached CHF 43 millions as of today and another CHF 6 million are expected during FY 2006/07.

38. Other than GBS, Switzerland currently supports the health sector basket, the poverty monitoring master plan basket as well as projects focusing on the targeted areas identified in its Country Programme. Switzerland also provides technical assistance under the Capacity Building Project to the Policy Analyses Department of the Ministry of Finance and the Bank of Tanzania.

39. On behalf of Tanzania's citizens, I would like to take this opportunity to thank the Government and the people of Switzerland and all DPs for their valuable contributions to the development in Tanzania.

Conclusions

Ladies and Gentlemen,

40. Tanzania's struggle for reduction of poverty through the implementation of MKUKUTA/MKUKUZA as well as the MDGs continues. In order for Tanzania to benefit from these strategies, transparent and accountable public resource management is crucial. Given the

fact that more than 40% of the national budget is provided by the external resources, effective aid management has to be closely monitored in line with the JAST. As proved by the Tanzania experience, GBS is the most outstanding and useful modality for delivering aid. Under the five years' implementation of the JAST, GBS will be further promoted and strengthened as we continue to work together with all stakeholders. It is our expectation that all DPs will adopt this modality in their support for developing countries, as it will facilitate effective aid management, which is key in attaining our development goals.