

**International Symposium on
General Budget Support
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**The Contribution of General Budget
Support to the Development Process –
The Tanzania Experience**

Presentation by the Ministry of Finance – Tanzania

Presentation outline

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1. Tanzania Basic Facts

- Tanzania consists of Tanzania Mainland (formerly known as Tanganyika) and the Islands of Zanzibar
- Tanzania is among the Sub-Saharan Africa countries
- Area coverage – 945,500 kilometers square
- Tanzania's population is about 34 million people (2000)
- Per capita gross national income is about US\$ 280 (2000)
- GDP growth – above 5% since 1998
- Official International Reserves – 7 months of imports of goods and services
- Domestic Revenue - TShs 145 billion (about US\$ 145 million) per month

2. Tanzania's Development Efforts

- Tanzania's development and poverty reduction efforts are guided by various national frameworks and strategies
 - ✓ Vision 2025 – Attain a Middle Income Society by 2025
 - ✓ National Poverty Eradication Strategy (NPES) – Reduce absolute poverty by 50% by 2010 and eradicate absolute poverty by 2025
- Poverty Reduction Strategy (PRS) – 2000/01-2002/03
 - ✓ Focused on 7 priority sectors – Basic Education, Primary Health, Water, Rural Roads, Judiciary, Agriculture Research and Extension, and HIV/AIDS
- NSGRP (MKUKUTA) – 2005/06-2009/10
 - ✓ Focuses on outcomes in 3 clusters – Growth and income poverty reduction; Improvement of the quality of life and social wellbeing; and Governance and accountability
 - ✓ MKUKUTA has integrated the MDGs targets at the country level

3. Role of Aid in Poverty Reduction

- Our tax base is still small to generate adequate domestic revenues
- Aid is encouraged to complement our domestic revenues
- Aid has been playing an important role in supporting national poverty reduction efforts during the PRS and now MKUKUTA implementations.
- Aid funds around 40% of the national budget and 80% of the development budget. Major programmes being supported include:
 - ✓ Primary Education Development Programme
 - ✓ Secondary Education Development Programme
 - ✓ Health Sector Reform Programme
 - ✓ Local Government Reform Programme
 - ✓ Public Service Reform Programme
 - ✓ Legal Sector Reform Programme
 - ✓ Public Financial Management Reform Programme
 - ✓ Business Environment Strengthening for Tanzania (BEST)
 - ✓ Property and Business Formalization Programme for Tanzania, etc.

4. Tanzania's Composition of Aid

- Government of Tanzania (GoT) receives aid in 3 different aid modalities
 - I. General Budget Support (GBS)
 - II. Basket Funds (BFs)
 - III. Direct Project Funds (DPFs)
- I. **GBS – Is the GoT Preferred Aid Delivery Modality – Why?**
 - ✓ It provides financial assistance to the overall national budget (Government Consolidated Fund) in line with the Constitution
 - ✓ It is allocated by the Government according to its legal and budgetary process and hence subjected to the same degree of contestability as domestic resources

4. Tanzania's Composition of Aid, Cont.

I. **GBS – Why?**

- ✓ It is the only modality that fully complies with the country's legal budgetary framework, i.e. the Constitution of the URT, Chapter 7, Articles 135 and 136, which require that all revenues/finances must be deposited in the Government's Consolidated Fund and appropriated by the Act of Parliament – Others use parallel systems
- ✓ It increases the proportion of external resources subjected to the national budget process thereby increasing national ownership, transparency and domestic accountability
- ✓ It strengthens the national budget process by limiting the access of Government agencies to extra budgetary finance by emphasizing national budget as the main framework for identifying priorities and programming resource use

4. Tanzania's Composition of Aid, Cont.

I. **GBS – Why?**

- ✓ It strengthens the Parliamentary role for decision making in resource allocation as more external resources will have to adhere to the national (Parliamentary) approval process thus, contributing to shifting Government accountability from donors to citizens through the Parliament
- ✓ It strengthens national public financial management and accountability systems by making use of existing structures and systems
- ✓ It increases the predictability of external resource availability and disbursements by basing funding decisions on outcomes of a joint review Performance Assessment Framework, which takes place prior to the FY in which disbursements are to be made

4. Tanzania's Composition of Aid, Cont.

I. **GBS – Why?**

- ✓ It contributes to transaction cost reduction, development partners harmonization and the alignment process through the adoption of single process for reviews, assessment, dialogue, etc.
- ✓ It is consistent with the Tanzania Assistance Strategy (2002), Monterrey Consensus (2002), Rome Declaration (2003), Marrakech Memorandum (2004), Paris Declaration (2005) and Joint Assistance Strategy for Tanzania (2006) commitments on aid effectiveness.
- ✓ It provides space for the Government to manage her business within the agreed priorities

4. Tanzania's Composition of Aid, Cont.

II. **Basket Funds – Less Preferred Aid Modality**

- ✓ More than one Development Partner collectively fund a programme or sector as a whole
- ✓ Creates unnecessary parallel implementation and management systems and structures as well as financing mechanisms, thus adding transaction costs to the Government
- ✓ Limits the degree of Government ownership over resource allocation across and within sectors and reforms
- ✓ Lack of complete and comparable information across sectors and reforms, creates difficulties in reducing duplication of activities, double funding and maximizing complementarities

4. Tanzania's Composition of Aid, Cont.

III. Direct Project Funds– Un-Preferred Aid Modality

- ✓ It is provided directly to a specific project and project - specific activities
- ✓ Most of it bypasses and therefore undermines the national budget process
- ✓ The dominance of off-budget project financing limits and undermines the discretion that is available to the GoT to allocate funds in accordance with national priorities
- ✓ The setting up of costly Project Implementation Units (PIUs) parallel to Government systems and structures have undermined Government structures and systems and prevented project sustainability

4. Tanzania's Composition of Aid, Cont.

TYPE	FY 2002/03	FY 2003/04	FY 2004/05	FY 2005/06	FY 2006/07
General Budget Support	30%	38%	34%	38%	42%
Basket Funds	16%	18%	21%	20%	16%
Project Funds	54%	44%	45%	42%	42%

5. Aid Effectiveness

- **Not only quantity but QUALITY of aid delivery and management matters**
- **What makes aid effective in achieving sustainable development and poverty reduction?**
 - ✓ National ownership and GOT leadership of the development process
 - ✓ Alignment of aid with national priorities (MKUKUTA etc.), systems and structures
 - ✓ Harmonisation of DP and GOT processes ⇒ reduce transaction costs
 - ✓ Aid predictability (commitments and disbursements) to allow for reliable budget planning and smooth budget execution
 - ✓ Managing resources for results in development and poverty reduction
 - ✓ Mutual accountability of GOT and DPs
 - ✓ Domestic accountability of GOT to citizens of Tanzania
- **Aid should support national priorities, systems, structures and processes rather than undermining them**

6. Contribution of GBS to the Development Process – Tanzania Experience

- ✓ GBS is provided by 14 DPs and accounts for about 20% of total Public Expenditures
- ✓ GBS is an integral part of GoT budgeting process in support of the poverty reduction strategy
- ✓ GBS has increased the proportion of external funds subjected to the national budget process allowing resources allocation in line with national priorities
- ✓ It has strengthened national ownership of the development process
- ✓ GBS has made a significant contribution to transaction costs reduction in aid delivery and management by avoiding parallel systems and structures
- ✓ GBS has helped to shift Government accountability from development partners to domestic stakeholders

6. Contribution of GBS to the Development Process – Tanzania Experience, Cont.

- ✓ GBS has helped to focus technical assistance and capacity building on core public policy and public expenditure processes
- ✓ GBS has made a major contribution to alignment and harmonization of development assistance with national development and poverty reduction strategies (NSGRP)
- ✓ GBS has helped to focus dialogue on strategic issues of economic management, and in the process made some significant contributions to the design of policy
- ✓ The focus on economic management has helped to create a macroeconomic environment conducive for growth, domestic resources mobilization increase, etc.

7. General Budget Support Key Issues

- The Tanzania's Experience shows that for GBS to function properly the following minimum requirements must be in place:
 - ✓ The Government must have a clear development agenda and strategy for achieving it. In Tanzania we have the Vision 2025 and PRS (NSGRP/MKUKUTA)
 - ✓ Transparency in aid commitments and their timely disbursement in line with earlier commitments, complemented by efficient Government systems for gathering, reviewing and transferring the respective data into the budget. In Tanzania the annual PER process is the key process in which aid is committed, shared and transferred into the national budget
 - ✓ Trust and continued dialogue between the Government and her development partners

7. General Budget Support Key Issues, Cont.

- Minimum requirements for GBS to function properly:
 - ✓ Sound public financial management system is important for ensuring transparency and accountability in public resource management and for fostering development partners' willingness and confidence in the Government systems. In Tanzania the computerized Integrated Financial Management System (IFMS) is a key system
 - ✓ Common Performance Assessment Framework (PAF, which draws as much as possible on domestic development agenda and policy reforms driven by domestic stakeholders to ensure national ownership and sustainability of the development process

8. Conclusion

- Although General Budget Support is the preferred aid modality, Basket and Direct Project funds will continue to play a role in financing development expenditure in Tanzania, but will have to operate under the following principles:
 - ✓ Support national and sector priorities, strategies and programmes and be requested by GOT
 - ✓ Be integrated in national, sector and local government budget processes
 - ✓ Operate within Govt. structures, systems, regulations and procedures
 - ✓ Implemented under same conditions as GOT funded projects

8. Conclusion, Cont.

- The General Budget Support and Aid Management in general will be guided by the Joint Assistance Strategy for Tanzania (JAST) as a next step in National Aid Effectiveness Agenda

8. Conclusion, Cont. JAST – Next Step in National Aid Effectiveness Agenda

- Why JAST?
 - ✓ National ownership and Government leadership needs further strengthening at all levels and across societies
 - ✓ Further reduction of transaction costs in aid delivery and management are required
 - parallel systems and procedures for delivering, managing, monitoring and evaluating development assistance – weakening GOT capacity
 - provision of off-budget financing, most notably for projects – undermines the national budget management process
 - ✓ Need for a strategy that meets demands of the new PRS – NSGRP/ZSGRP (MKUKUTA/MKUZA)
 - ✓ Fully reflect all principles of aid effectiveness in line with international commitments (Monterrey 2002, Rome 2003, Marrakech 2004, Paris 2005) – adapted to the Tanzanian context

8. Conclusion, Cont. – What is JAST?

- National medium-term framework (renewable 5-year cycle) for managing development cooperation between GOT and DPs so as to achieve national development goals as outlined in the NSGRP/ZSGRP and in line with Vision 2025 / Zanzibar Vision 2020
- DPs to adopt the JAST as basis for guiding their development co-operation with GOT ⇒ bilateral agreements and country assistance strategies to be brought in line with JAST
- Overall objective: achieving results under NSGRP/ZSGRP
- Intermediate objectives: aid effectiveness by strengthening national ownership, alignment, harmonisation, managing for results, mutual and domestic accountability

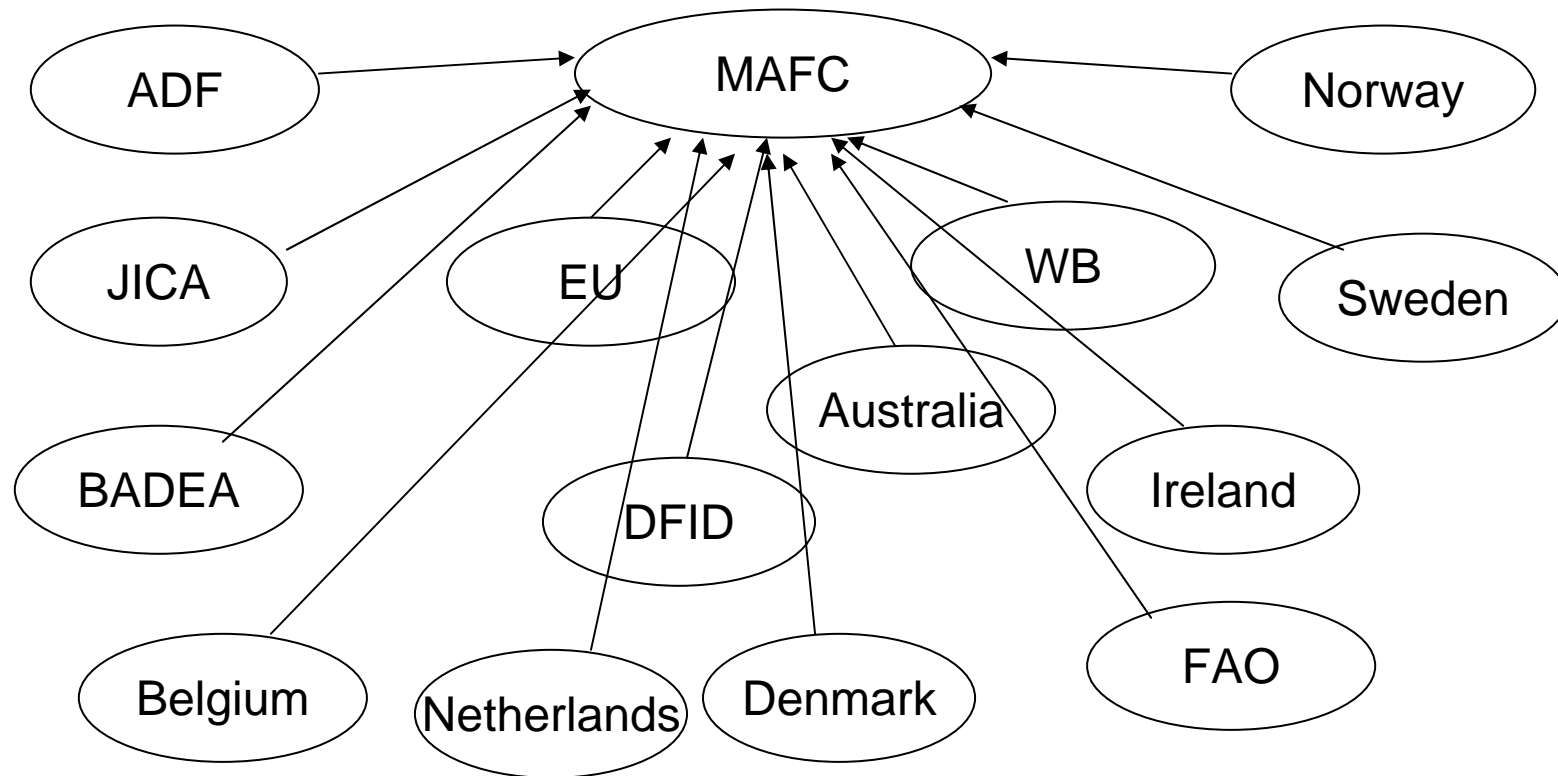
8. Conclusion, Cont. – JAST key issues

- National ownership and Government leadership of the development process
 - ✓ Participatory approach to policies, strategies, planning and decision making processes
 - ✓ Country takes leadership in managing the development process (developing and implementing development policies, strategies and programmes)
- Harmonisation and alignment around NSGRP and national budget
 - ✓ Align National, Sector and Local policies, strategies and processes with NSGRP and national budget
 - ✓ Align DPs support, strategies, and processes with national priorities (NSGRP), systems, procedures and processes

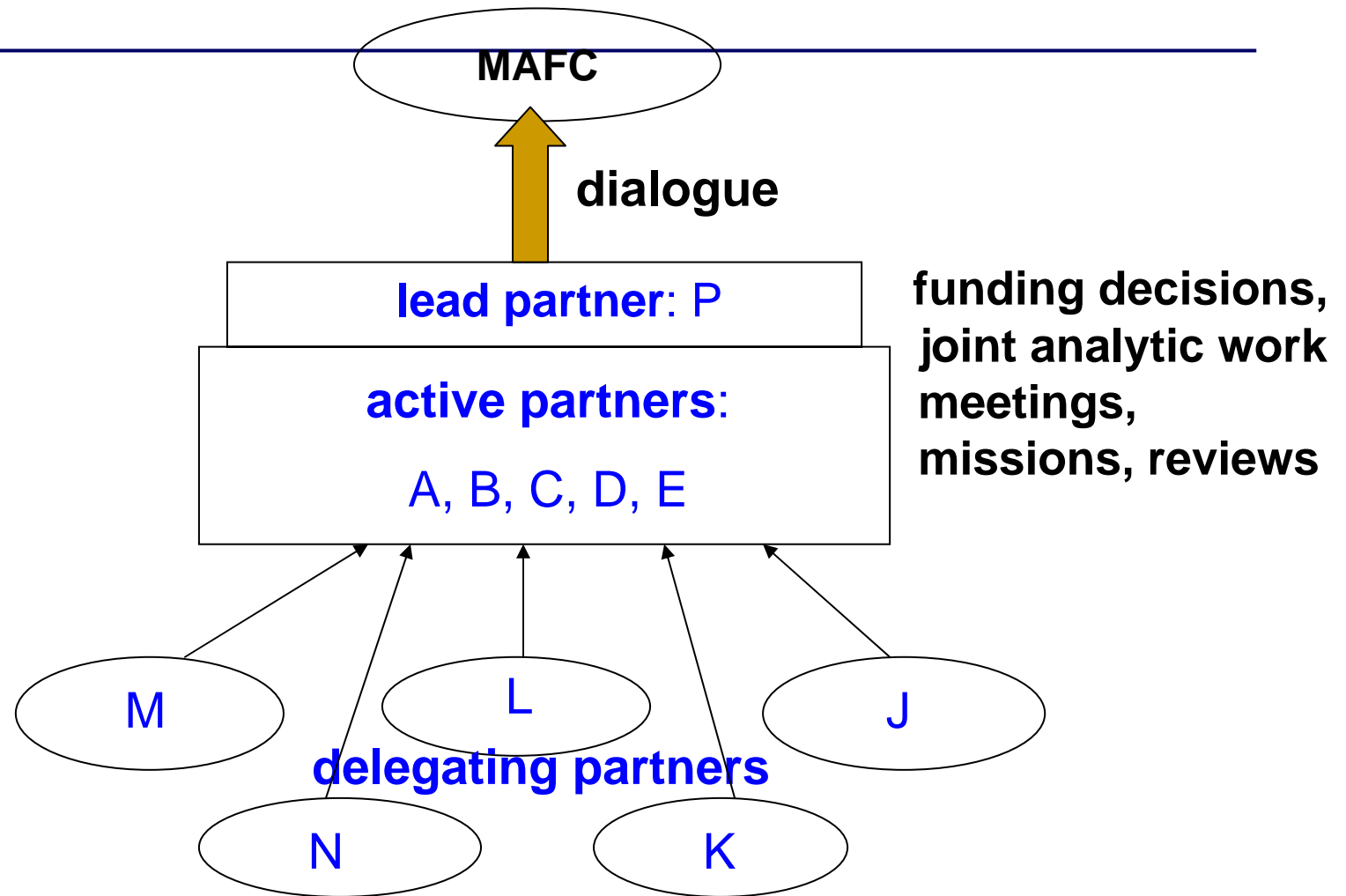
8. Conclusion, Cont. JAST – key issues

- **Capacity development and technical assistance**
 - ✓ Strengthen further the Government capacity at all levels
 - ✓ use of TA for capacity development, demand-driven, increasingly untied from the source of finance, GOT procurement of TA, TA management integrated in GOT structures
 - ✓ Address the capacity needs of non state actors
- **Division of labour within GOT and among DPs**
 - ✓ More effective division of labour among GOT agencies with clearly defined roles – lead agency in each sector/thematic area
 - ✓ Rationalise number of DPs per sector/thematic area and the number of sectors/thematic areas per DP
 - ✓ Use of delegated and lead partner arrangements

Current situation – multiple donors with own requirements, processes, missions, meetings place high burden on GOT



In JAS – Division of Labour



8. Conclusion, Cont. JAST – key issues

▪ **Aid delivery modalities**

- ✓ Move to GBS - GOT's preferred aid modality
- ✓ Basket funds to be used where appropriate, particularly in protecting public reforms and/or thematic areas which are not yet mainstreamed in normal Government activities
- ✓ Direct project funds to be used for large scale infrastructure investment, piloting and emergency assistance

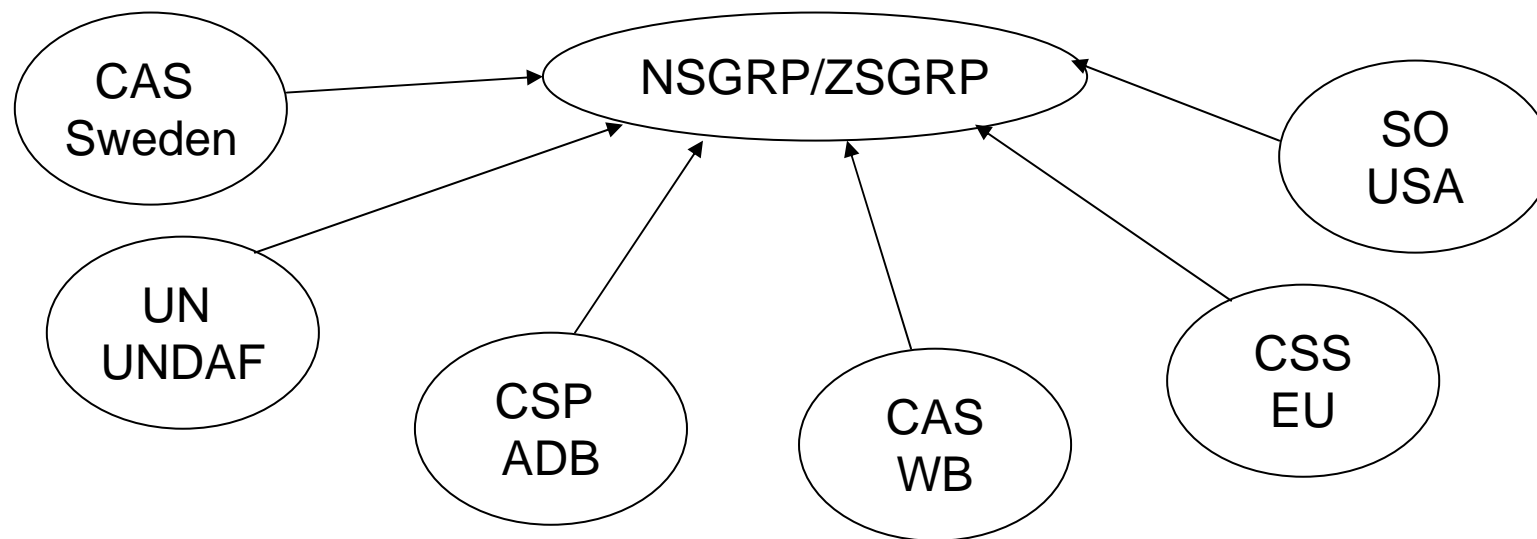
▪ **Principles for using baskets and projects:**

- ✓ Support national and sector priorities, strategies and programmes and be requested by GOT
- ✓ Be integrated in national, sector and local government budget processes
- ✓ Operate within Govt. structures, systems, regulations and procedures
- ✓ Implemented under same conditions as GOT funded projects

8. Conclusion, Cont. JAST – key issues

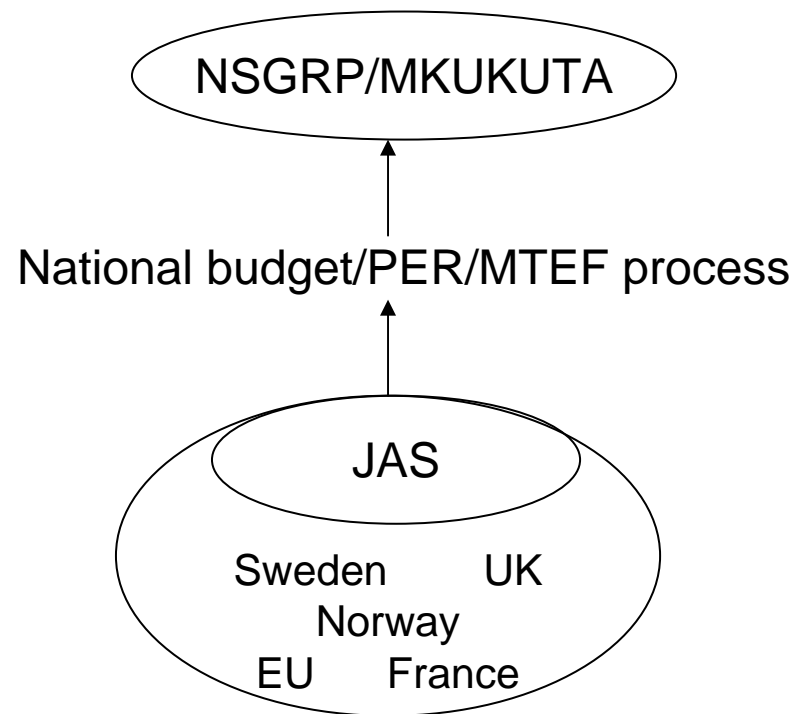
- Channel/Disburse **AID** through GoT Exchequer and Budget System
- Use of national procurement, accounting and auditing systems and procedures
- Use dialogue as a means for:
 - ✓ Improving public policy choices, effectiveness in planning, budget management and public service delivery
 - ✓ Improving information sharing
 - ✓ Facilitating domestic and mutual accountability

JAST, Move from ...



... each DP with own priorities, requirements, practices, procedures and processes

To ... alignment of external resources with national development priorities



... under a single guiding framework for managing aid more effectively to achieve national development and poverty reduction goals



THANK YOU