Budget Support in Tanzania

2014/2015
Budget Support is a significant aid instrument that has brought important development results to Tanzania. Through Budget Support, we have supported girls’ education and an increase in the number of nurses. A recent Budget Support evaluation concluded that the development results reached through Budget Support could not have been achieved through other aid instruments, such as project or common funds. This is a notable conclusion.

The evaluation also found room for improvements. It noted that the policy dialogue had not been sufficiently open, strategic, and problem-focused. We have therefore embarked on a reform agenda together with the Government of Tanzania to improve the instrument. It is a joint challenge to ensure that our dialogue focuses on strategic analysis and proactive responses to further reduce poverty, to create productive employment, and to ensure equitable service delivery.

Finland took over as the Chair for Budget Support in April 2014 and is now handing over to the EU delegation. We set enhancing broad-based, equitable growth and poverty reduction, and transparent, accountable governance as our priorities. Our goal was also to improve the dialogue system of Budget Support and make it more focused on results. For this end, we started a dialogue on how to reform Budget Support. The so-called IPTL corruption case led to delaying Budget Support disbursements. In March 2015 the disbursements were resumed.

The Budget Support Partnership Memorandum is expiring in 2016 and so are Tanzania’s poverty reduction and five-year development plans. Development Partner policies change over time as well. This reality is taken into account while finalizing the Budget Support reform agenda. With joint efforts we can ensure that Budget Support remains effective in the future.

In countries like Tanzania, whose objectives include reducing aid dependency and increasing own revenue collection, Budget Support plays an important role. Budget Support uses and develops national public financial management systems, and domestic accountability and transparency mechanisms. These systems are crucial for Tanzania to be able to tap into its rich national resources efficiently and transparently, and to transform into a middle-income country.

In Dar es Salaam, 24.4.2015

Sinikka Antila
Ambassador of Finland
Chair of the Budget Support Development Partners’ Group in 2014/2015
Budget Support means that Development Partners (DPs) provide un-earmarked money to the Treasury to support Tanzania’s own development planning and implementation through the budget. The Government of Tanzania (GoT) decides on the allocation of funds in the budget. National policies, such as National Strategy for Growth and Reduction of Poverty, MKUKUTA II, guide the allocation and Parliament approves the national budget.

Budget Support can be in the form of General Budget Support (GBS) or Sector Budget Support (SBS). The difference is that while Sector Budget Support focuses the dialogue between DPs and the GoT on a specific sector, General Budget Support dialogue is focused on overall policy objectives and budget priorities.

**Evaluation Results**

The first evaluation of Budget Support (1995–2004) confirmed that it contributes to an increased sense of ownership of the development process. Government ownership is improved because it makes the decisions on the use of funds. Parliamentary approval of those decisions strengthens the links between citizens and the Government on the use of development funds. This strengthens the national political and financial systems.

Additionally, the evaluation found that Budget Support had improved donor harmonization; the Development Partners had coordinated their development efforts with each other better.

The second evaluation of Budget Support in Tanzania (2005–2012) showed that the modality had made significant contributions to improved education, health and financial management standards in the country.

**Partnership**

Development Partners who give Budget Support in 2014–2015 are Canada, Denmark, Finland, Germany, Ireland, Japan, Sweden, UK, African Development Bank, European Commission and World Bank.

The cooperation between the Government of Tanzania and the GBS partners is defined in the Partnership Framework Memorandum (PFM) of 2011. The PFM sets out the principles and terms for the GBS partnership. In Tanzania, Budget Support was introduced in 2001 as a successor to the Multilateral Debt Fund (MDF). The aim was to increase national ownership, harmonize the Development Partners’ activities and contribute to the reduction of poverty more efficiently.

**Underlying Principles (UP)**

In the Partnership Framework Memorandum for General Budget Support, the Government of Tanzania and its Development Partners have agreed on five Underlying Principles. Observance of these principles is critical for the partnership. Twice a year, GBS partners make a joint assessment of the UP. One is done before the Annual Review and the other before making firm commitments for the coming year. Due to their legal mandates, the multilateral banks support but do not adhere to the assessment. The underlying principles are:

1. Continuance of sound macroeconomic policies and management
2. Commitment to achieving MKUKUTA II objectives and Millennium Development Goals
3. Continuous strengthening of budgeting and public financial management systems
4. Continuous peace and respect for human rights, the rule of law, democratic principles, and the independence of the judiciary
5. Good governance, accountability of the Government to its citizens, and integrity in public life, including the active fight against corruption in accordance with the laws of the United Republic of Tanzania
Tanzania has been one of the largest recipients of Budget Support in the world. During the years 2005/6–2011/12, the total amount of Budget Support was 5 billion USD.

Payments have remained stable during the past years. This can be seen in the table below that displays the amount of Budget Support that DPs committed to disburse before the start of the financial year and the actual disbursement made. With the global trend of decreasing number of Development Partners who give Budget Support, the amount of Budget Support to Tanzania may reduce.

As a rule, Budget Support disbursements have been predictable. As displayed in the table, payments have been made in accordance with commitments. Usually, most of Budget Support is disbursed in the first half of the Tanzanian financial year.

In 2014/15, disbursements were delayed due to the so-called IPTL case, pending its investigation and handling process. The disbursements have been resumed since March 2015. Information on commitments and disbursements for financial year 2014/2015 can be found on the Budget Support website.

### Forms of Payment

Most Development Partners use two different forms of payment for their Budget Support: a base tranche and a performance tranche. The base tranche is the ‘basic’ form of payment, while the performance tranche is an additional ‘bonus’ payment used to recognize the achievement of key indicators.

To put a stronger focus on development results, many Development Partners have increased the share of the performance tranche in their Budget Support payments. The aim is to recognize progress in government priority sectors and support their achievement. Performance tranches also help focus the Budget Support dialogue, but they may reduce medium-term predictability.

### Why Budget Support?

#### Ownership

The Government is in the driver’s seat; Development Partners support national development efforts

#### Transparency

The national budget and Development Partners’ contributions are public

#### Accountability

The Parliament of Tanzania decides on the allocation of funds and scrutinizes their use

#### Predictability

The Government of Tanzania knows the amounts of support in advance and can plan accordingly

#### Donor harmonization

Development Partners work as a group and use a harmonized results framework

<table>
<thead>
<tr>
<th>Financial year</th>
<th>Firm commitments (Thousands of USD)</th>
<th>Actual disbursements (Thousands of USD)</th>
<th>Disbursement over commitment (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007/2008</td>
<td>679,867</td>
<td>776,106</td>
<td>114%</td>
</tr>
<tr>
<td>2008/2009</td>
<td>719,134</td>
<td>767,781</td>
<td>107%</td>
</tr>
<tr>
<td>2009/2010</td>
<td>754,758</td>
<td>930,527</td>
<td>123%</td>
</tr>
<tr>
<td>2010/2011</td>
<td>534,317</td>
<td>623,252</td>
<td>117%</td>
</tr>
<tr>
<td>2011/2012</td>
<td>452,973</td>
<td>597,047</td>
<td>132%</td>
</tr>
<tr>
<td>2012/2013</td>
<td>495,729</td>
<td>584,118</td>
<td>118%</td>
</tr>
<tr>
<td>2013/2014</td>
<td>561,582</td>
<td>643,014</td>
<td>115%</td>
</tr>
</tbody>
</table>
The evaluations have shown that through Budget Support, significant contributions have been made to improved education, health and public financial management standards in Tanzania.

**More children in school**

Primary school enrolment rate doubled over the last decade. Transition rates from primary to secondary school grew from 20% in 2006 to 54% in 2012.

**More teachers**

The number of districts with more than 50 students per primary school teacher goes down every year. In 2011, there were 47 such districts out of 133 districts and in 2013, 39 out of 159.

**More nurses & midwives**

The share of districts where there are more than three nurses and midwives per 10,000 inhabitants has increased from 45% in 2012 to 68% in 2013.

**Better infrastructure**

Road infrastructure has improved by 14% in 5 years. At the Dar es Salaam port, ship turnaround times and container dwell times have been considerably reduced from 11 days in 2011 to 5 days in 2013.

**Less poverty**

Basic needs poverty has been reduced from 33.6% in 2007 to 28.2% in 2012. The quality of housing has improved as well; in 2012, 73% of households lived in houses with stone or brick walls compared to 33% in 2007.

**More transparency**

Citizens can access more information on public spending than previously. Budget guidelines, the budget proposal, the approved budget, citizen’s easy-to-understand budget and budget execution reports are all published on the internet. Budget speeches are published in local newspapers.
**IMPROVEMENTS IN THE SOCIAL SECTOR**

Budget Support has contributed significantly to improvements in key social sectors such as education and health. It has also helped to steadily improve the availability of services to the poor.

**MACROECONOMIC STABILITY**

Budget Support has had an important influence on economic growth, which in Tanzania has been stable at an overall yearly average of 7% during the last decade. Budget Support funds allowed the Government to maintain a higher level of development spending reducing the need to increase domestic borrowing. This helped to sustain the level of public investment and enabled a fast recovery from the global financial crisis.

**TRANSPARENCY AND ACCOUNTABILITY**

Budget Support has helped strengthen public financial management systems and improve transparency and accountability for citizens. The combination of Budget Support and assistance to public oversight institutions, such as the National Audit Office and the Parliament, has created more transparency.

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**Economic growth**

- Annual growth in percentage
- Advanced economies
- Sub-saharan Africa
- Tanzania

**64% reduction in infant mortality**

- Between 1990 and 2010 on mainland

**200% more children in school**

**Tax revenue, % of GDP**

- Financial years 2004-2013
The single most important event for dialogue between the Government and Budget Support partners during the year is the Annual Review, which is usually held in November. The review is an opportunity for the Government of Tanzania and its partners to assess how the Budget Support funds have been used by the Government, and whether this has produced results in poverty reduction. It is also a good occasion to discuss future plans and development targets.

The rating of the Performance Assessment Framework (PAF) is the basis for the review. The results framework is based on targets set out in the National Strategy for Growth and Reduction of Poverty, MKUKUTA II, the Big Results Now Initiative and other national plans. The review therefore covers a broad range of issues in sectors such as health, transport, education, agriculture as well as governance.

The Annual Review is an important opportunity to discuss the assessment of the Underlying Principles which is carried out jointly by the GBS partners. It is also an opportunity for the Government and Budget Support partners to enhance their partnership. Based on the Annual Review, Development Partners make their initial commitments for Budget Support payments for the following financial year.
Every year, the GoT and GBS partners jointly decide on indicators for measuring performance in poverty reduction. The indicators are compiled into the Performance Assessment Framework (PAF). The multilateral banks do not use the PAF due to their own legal requirements but aim to align their results’ matrices as much as possible.

Indicators for the PAF are based on the National Strategy for Poverty Reduction (MKUKUTA II). Other national priority frameworks such as the Five-Year Development Plan 2011/12-2015/16 and the Big Results Now Initiative launched in 2013 have also been used as a basis for the indicators.

The PAF has been developed and improved over time. The number of indicators has been reduced to make the PAF more focused on key priorities, and to enable a good dialogue on key policy issues. The PAF for 2014 is considerably more compact and strategic than in previous years. It has a total of 12 indicators.
The Government of Tanzania and its Development Partners have a close and continuous dialogue in connection to Budget Support. While many positive development results have been achieved with its help, citizens still face challenges in areas like education, health, access to water, and infrastructure. The dialogue centers on actions for reducing poverty, and improving social services as well as strengthening public financial management systems.

The technical details of the cooperation are outlined in the Technical Note. It and the Partnership Framework Memorandum form the basis of all bilateral agreements on GBS between DPs and the GoT. Both documents can be found in the Budget Support webpage.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
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<td>DP</td>
<td>Development Partner</td>
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<tr>
<td>GBS</td>
<td>General Budget Support</td>
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<td>GoT</td>
<td>Government of Tanzania</td>
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<td>MDF</td>
<td>Multilateral Debt Fund</td>
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<tr>
<td>MKUKUTA II</td>
<td>National Strategy for Growth and Poverty Reduction</td>
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<td>PAF</td>
<td>Performance Assessment Framework</td>
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<td>PFM</td>
<td>Partnership Framework Memorandum</td>
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<td>SBS</td>
<td>Sector Budget Support</td>
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<tr>
<td>UP</td>
<td>Underlying Principles</td>
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More information

http://www.tzdpg.or.tz/budgetsupport

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Development Partners’ Group
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“Budget Support has brought important development results to Tanzania. With joint efforts we can ensure that Budget Support remains effective in the future.”

-Sinikka Antila,
Ambassador of Finland