



REVOLUTIONARY GOVERNMENT OF ZANZIBAR

ODA REPORT FY 2013/14

Department of External Finance, MoF

LIST OF ABBREVIATIONS

AfDB	African Development Bank
AMP	Aid Management Platform
BADEA	Arab Bank of Economic Development in Africa
DCF	Development Cooperation Framework
DP	Development Partner
MDA	Ministries, Departments and Agencies
MKUZA II	Zanzibar Strategy for Growth and Reduction of Poverty
MoF	Ministry of Finance, Zanzibar
MoF URT	Ministry of Finance, United Republic of Tanzania
ODA	Overseas Development Aid
NGO	Non-Governmental Organization
PFM	Public Finance Management
PFMRP	Public Finance Management Reform Programme
PEFA	Public Expenditure and Financial Accountability
RGoZ	Revolutionary Government of Zanzibar
SIDS	Small Island Developing States
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
WB	World Bank
WHO	World Health Organization

PREFACE

The Revolutionary Government of Zanzibar (RGoZ) wishes to strengthen aid transparency and to enhance public awareness about the support it receives from development stakeholders towards achieving the objectives of the Zanzibar Vision 2020.

This first Zanzibar Annual Overseas Development Aid (ODA) Report responds to this wish to strengthen transparency. Its preparation is partly the result of the work recently undertaken in re-operationalising Tanzania's national aid information management system, the Aid Management Platform (AMP), in Zanzibar. This has allowed the use of new and more sophisticated data to the one collected from Ministries, Departments and Agencies (MDAs) through the Aid Coordination Committee. While efforts are being taken to improve the quality of data, this report is combining a mix of both datasets. This is not optimal, but as a first ODA report, its objective is also to outline the remaining weaknesses in aid data collection aid monitoring, with a view of addressing these gaps in the following reports.

Notwithstanding these data gaps, the report outlines a number of important findings over FY2013/14, such as continued high aid dependency, the increasing role of loans in supporting Zanzibar's development agenda, the decline in budget support, the very limited amount of project funds disbursed through the exchequer, and the incompleteness of actual commitments as entered in the AMP.

With a view of addressing some of these issues, RGoZ is expected to launch the Zanzibar Development Implementation Strategy, the "Zanzibar Compact", in January 2015. The Zanzibar Compact can be seen as a three year implementation plan of URT's Development Cooperation Framework (DCF).

The Ministry of Finance wishes to thank the Ministry of Finance, URT, for its support in this task of improving aid management and monitoring, in particular through the AMP, as well as all the DPs for their own efforts towards that same objective. It encourages such efforts to continue.

Khamis Omar

Principal Secretary, Ministry of Finance

EXECUTIVE SUMMARY

This ODA report for FY2013/2014, the first in Zanzibar, presents an overview of ODA data to Government and non-Government over that year, as well as some historical trends.

The report uses two main sources of data: data from the Aid Management Platform (AMP) and data from Ministries, Departments and Agencies (MDAs) collected through the MoF-led Aid Coordination Committee process. As outlined in the report, the use of both these data sources is not optimal but reflects the continued data quality challenges facing both sets of data, despite the good progress recently made.

As such, part of the objective of the report, beyond strengthening transparency and accountability, is to pinpoint these gaps, so as not to see them in subsequent ODA reports.

The report, after a brief introduction about ODA in Zanzibar, objectives, and data considerations, presents data touching upon a number of dimensions: (i) Overall ODA portfolio; (ii) ODA per modalities; (iii) ODA per largest donors; (iv) ODA flows per MKUZA cluster and sector allocations; and (v) ODA and RGoZ accounting/budgetary systems.

Out of an analysis of data in these different dimensions, and notwithstanding the data gaps identified, a number of key findings emerge, pointing to the continued prevalence of project aid, challenges around the timing of budget support disbursements, the very limited use of the exchequer for project disbursements, and questions about the overall sectoral allocation of ODA flows and reporting of NGO flows.

On the basis of those findings, the report lists a number of priority issues to be addressed going forward. Those include the need to make further progress in the use of the Aid Management Platform and in the adoption of non-project modalities, such as basket funds, that reduce transaction costs and put RGoZ more in the driving seat in the implementation of Zanzibar's development agenda. Relatively simple measures, such as the more systematic utilization of the exchequer, are also encouraged.

INTRODUCTION

a. ODA in Zanzibar

External resources play a critical role in Zanzibar’s development, supporting the capital budget in its near entirety. Their effective utilization is therefore crucial to existing efforts towards the implementation of MKUZA II, Vision 2020, and ultimately Zanzibar’s economic transformation. While Zanzibar’s aid landscape is in some ways integrated with the Mainland’s (same overall policy framework, common general budget support, etc.), RGoZ ultimately implements its own development budget and own development projects. As such, specific scrutiny towards Zanzibar’s Overseas Development Aid (ODA) flows is important in order to strengthen transparency and accountability. In view of this, many efforts have been undertaken over recent years to develop a comprehensive system for the management, coordination and monitoring of external resources to Zanzibar, most notably through the Aid Coordination Committee process, the NGO quarterly monitoring exercise¹, and the Aid Management Platform (AMP).

b. Purpose of the ODA Report

This annual report is the first publication of the coordinated effort that has been undertaken towards strengthening aid coordination in Zanzibar over recent years, in particular through the operationalisation of the AMP. Building on that work, the report provides key data around volume, distribution and nature of ODA, including through NGOs. Its specific objectives are as follows:

- Increasing the transparency of aid operations through the Government and NGOs in Zanzibar, with the view of strengthening accountability.
- Improving RGoZ’s ability to manage its aid portfolio.
- Provide insights as to Zanzibar and Development Partners’ adherence to the Accra, Paris, and Busan development cooperation principles.
- To reveal information and data collection gaps. Notwithstanding the efforts made over recent years in strengthening the AMP and other aid monitoring processes, a number of gaps in data remain. The heterogeneity in the way DPs approach Zanzibar in their management of Tanzania ODA creates another layer of complexity in Zanzibar aid monitoring. As such, challenges remain, in particular vis-à-vis DPs that provide most of their assistance to Zanzibar through ‘national’ projects (i.e. AfDB, WB).

c. Data included in and excluded from the report

RGoZ has seen a number of processes established in recent years to strengthen aid monitoring (AMP, Aid Coordination Committee, NGO Quarterly Monitoring). This multiplicity of frameworks has not come without challenges as, despite significant progress,

¹ Every quarter, MoF invites local NGOs to a meeting in which they submit disbursement data.

data quality remains an issue. Against that background, the main sources of data used in this report are as follows:

1. *AMP (adjusted) data*: this is data entered by DPs through the Aid Management Platform and that appears in the 'Zanzibar' workspace of that platform. Significant efforts were made over the last 18 months to clean up that platform. That work has largely been complete, however the finalization of that process has proved more challenging for DPs that provide most of their support to Zanzibar through national projects covering both Mainland Tanzania and Zanzibar (i.e. WB and AfDB). In parallel, a few DPs are yet to enter aid data in the system, such as China. Taken together, these gaps limit the effectiveness of the AMP in providing an accurate aggregate picture of aid flows to Zanzibar. As such, when AMP data is used in the report, it is not raw, but completed by MDA data for the DPs with data gaps in the AMP ('AMP adjusted data').
2. *MDA data* (collected through the Aid Coordination Committee process): This is data collected from line ministries on a monthly basis through the Aid Coordination Committee process and then compiled by Department of External Finance (MoF)/Planning Commission. Data quality has varied from year to year and from MDA to MDA.
3. *MoF Zanzibar data*: This is data collected by the Department of Accountant General on ODA disbursements to the exchequer.

The use of various sources of data in the report is not optimal. It is expected that once the remaining data gaps in the AMP are addressed, the Government will be able to use the AMP as its single aid monitoring framework.

MAIN FINDINGS

Overall ODA portfolio

In FY2013/14, total ODA disbursed to Zanzibar (Government and non-Government) totaled US\$ 207 million (or Tsh 336 billion). This estimate, based on adjusted AMP data and including budget support, is relatively higher than total aid as reported by MDAs through the quarterly Aid Coordination Committee process, at US\$ 143 million (or Tsh 232 billion) – the latter figure only including ODA passing through Government.² Per capita, this suggests that ODA stands at roughly \$150, which is significantly higher than in the Mainland (\$50 per capita) but not too far off from ratios seen in Small Island Developing States (SIDS).

There is some evidence that aid dependency remains high, as the ratio of ODA to the budget and GDP is still significant. Based on MDA disbursement data, ODA represented 41% of total actual expenditures (or 16% of GDP) in FY2013/14. Such ratios are significantly higher than those of Mainland Tanzania, at respectively 23% and 7%, and than other East African countries.³

Aid dependency however is decreasing. While in absolute US dollar terms, ODA is relatively stable over the last five years (based on MDA disbursement data), with a peak at US\$ 150 million in

² This includes aid to NGOs when NGOs support Government programmes.

³ Source: IMF.

FY2009/10, ODA as percentage of the budget (and GDP) has steadily decreased, in a context of rapidly increasing domestic revenues and high economic growth. Having reached 65% of the total actual expenditures in FY2009/10, it decreased to 44% in FY2012/13, and to 41% a year later. That trend is generally similar to the one seen in Mainland Tanzania and other fast-growing sub-Saharan African countries.

Based on MDA data, 69% of disbursed ODA⁴ was loan-financed in FY2013/14, in what is a shift from recent years. Up to FY2009/10, grants were dominating the Zanzibar aid landscape. From that year onwards (partly as a result of the start of construction and rehabilitation of the Zanzibar airport), that trend shifted, and by FY2013/14 loans were by far the main source of financing development projects. Such a shift – which is also apparent in Mainland Tanzania although not quite at the same level - may also reflect a change in the nature of projects supported (towards more ‘productive’ sectors). The recent increase in loans has been for now relatively unnoticed within RGoZ, in an institutional context in which it is the URT Government and not RGoZ that services those loans.

ODA per modalities

During the year, out of the total US\$ 207 million (or Tsh 336 billion) disbursed to RGoZ and NSAs, 88% was for projects, 11% for general budget support, and 1% for basket (AMP adjusted data). No sector budget support was received.

Table 1:

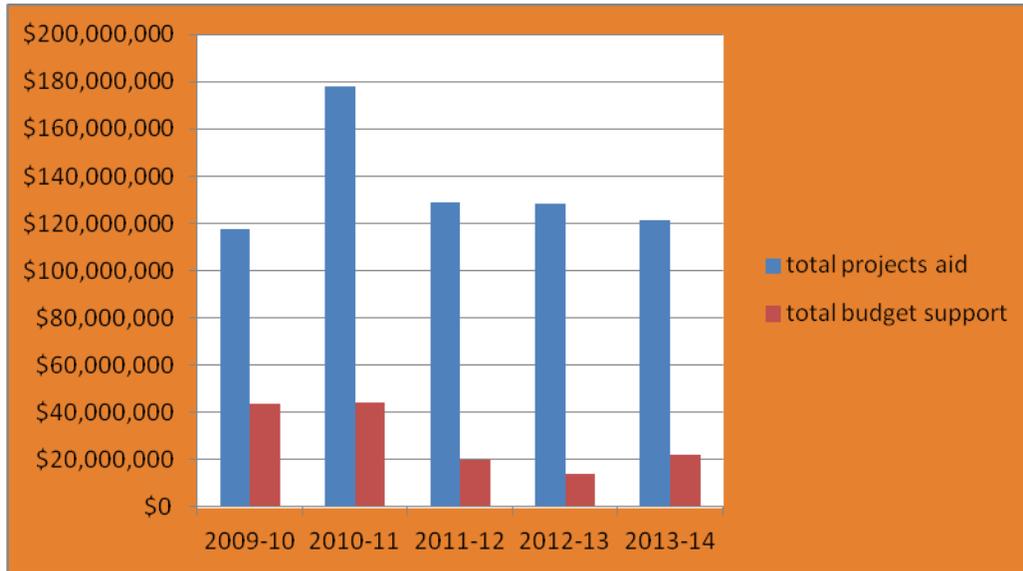
Summary of data for FY 2013/14 (all figures in USD)	
	Actual disbursements
General budget support	22,255,416
Basket funds	1,503,526
Project funds	183,024,691
Total ODA	206,783,633

Source: AMP adjusted data

Among aid modalities, direct project support has continued to largely dominate, although it has not increased in absolute terms. Based on AMP adjusted data, total project aid disbursed amounted to US\$ 183 million (Tsh 298 billion) in FY2013/14, or 88% of total aid. MDA data, based on which the total project aid disbursed was US\$ 119 million (Tsh 194 billion) that same year, outlines that the amount of project aid has been stable in absolute US dollar terms in recent years, and that it has increased in relative terms, as general budget support has gone down. Figure 1 outlines the evolution of project and general budget support over the last five years (basket fund, which is relatively new and marginal, is not included).

⁴ This excludes budget support.

Figure 1: Project and general budget support disbursements since FY2009/10



Source: MDA data through Aid Coordination Committee; Accountant General

Budget support disbursements totaled US\$ 22.2 million or Tsh 36 billion in FY2013/14, representing 11% of total aid. This data, reconciled between AMP and MoF Zanzibar⁵, underscores a major shift compared to a few years back, when budget support was a dominant aid modality, amounting to more than \$40 million in FY2009/10. With budget support being the dominant resource to finance its (non project-funded) development budget, the cuts in that aid modality limit RGoZ capacity to finance its capital expenditures. It is also noteworthy that more than 50% of all budget support was disbursed in the second part of FY2013/14, therefore reducing the effectiveness of the instrument.⁶ Table 2 lists all budget support providers to RGoZ over FY2013/14.

⁵ GBS data in the AMP is entered by MoF URT and shows disbursements from DPs to URT. A share (4.5%) of each of these disbursements is then transferred to RGoZ. These internal transfers are not captured in the AMP.

⁶ Delays in GBS disbursements have created major cash flow challenges for Government, in particular as RGoZ still runs a cash rationing system. The PEFA indicator D1 focuses on the timeliness of GBS disbursements.

Table 2:

Budget support disbursed in FY2013/14 (all figures in USD)	
	Actual disbursements
AfDB	5,431,341
World Bank	3,378,477
European Union	2,848,169
Sweden	2,754,539
UK	2,413,105
Norway	2,192,340
Japan	1,334,394
Denmark	1,027,003
Finland	670,892
Ireland	481,176
Germany	357,484
Canada	237,912
TOTAL	23,126,832

Source: AMP, Accountant General

The basket funding modality has remained limited to one single basket in FY2013/14: the District Health Services (DHS) basket in the Ministry of Health. Three donors (DANIDA, the Global Fund, and UNICEF) disbursed a total of US\$ 1.5 million (or Tsh 2.4 billion) to the basket in FY2013/14.⁷ The Government has welcomed the findings of a recent independent assessment of that basket, which underscored the effectiveness of the instrument so far and which encouraged the use of similar modalities in other sectors, such as education and agriculture.⁸ In addition to the DHS basket, RGoZ has benefited from the assistance from one Mainland basket in FY2013/14 (i.e. the PFMRP basket, totaling Tsh 500 million).⁹

ODA per largest donors

Based on adjusted AMP (disbursement) data, the three largest donors in Zanzibar in FY2013/14 were the World Bank, the AfDB and USAID. With the number of (large) projects relatively limited in Zanzibar and donors generally not supporting more than one big project at a time, the listing of the largest donors can vary significantly from year to year. Below is a list of the ten largest donors in Zanzibar, based on actual disbursements (including budget support) in FY2013/14.

⁷ Source: Ministry of Health

⁸ See RGoZ, *Assessing a New Aid Modality in Zanzibar: The District Health Services basket Fund*, September 2014. The report also pointed the need for other donors to come on board in order to ensure the financial sustainability of the DHS Basket going forward. Copies of the report are available upon request (contact Ms Aziza Juma at aziza_juma@hotmail.com).

⁹ Support received through the PFMRP has been included as 'project fund' in the summary of data table, as this is not standard basket funding.

Table 3:

Largest donors in Zanzibar in FY2013/14 (all figures in US\$)	
	Actual disbursements
World Bank	38,502,910
AfDB	36,912,130
USAID	30,267,965
China	12,180,880
Sweden	4,363,027
Denmark	4,267,744
European Union	3,831,123
UNDP	3,389,195
BADEA	3,033,792
UK	2,413,104

Source: AMP supplemented by MDA data

Out of these ten largest donors, only two can be considered as non-traditional (China and BADEA). The share of China (including China Exim Bank) in total aid to Zanzibar over recent years has varied and has largely depended on the level of annual disbursements for the Construction and Rehabilitation of the Zanzibar airport project, the largest ongoing project in Zanzibar.

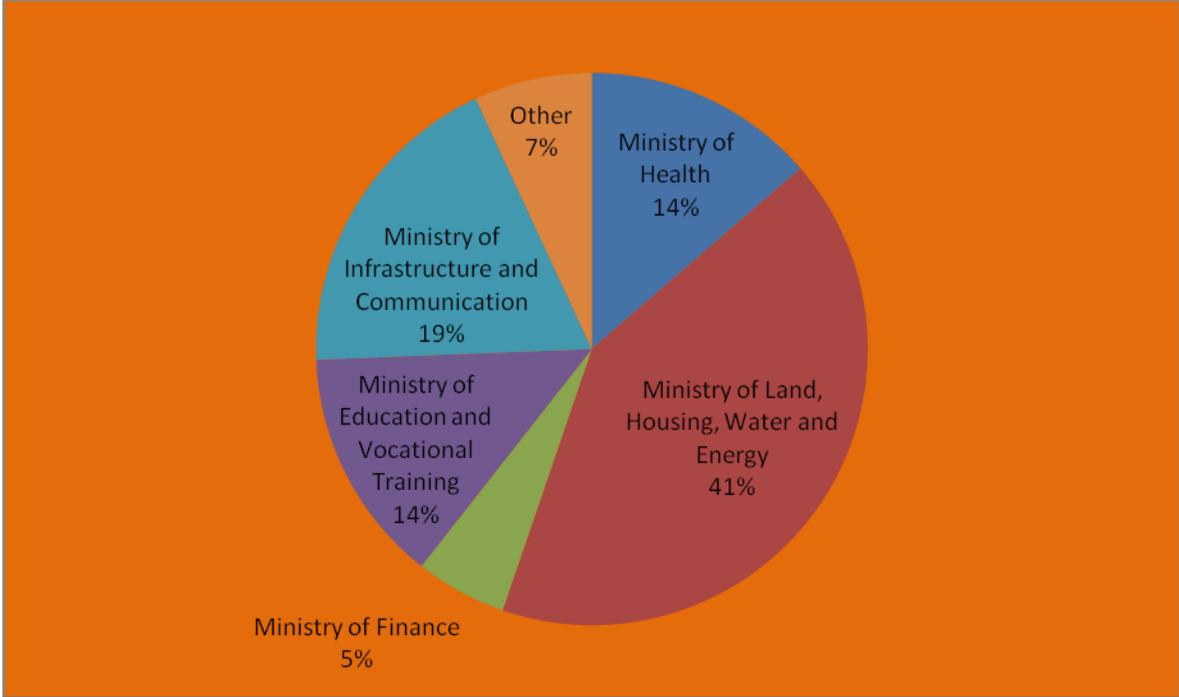
ODA flows per MKUZA cluster and sector allocations:

ODA appears to be still geared primarily towards social sectors. While both AMP and MDAs datasets currently do not capture that dimension adequately, there is some evidence, using adjusted AMP (disbursement) data, that the share of total aid allocated to Cluster 1 of the MKUZA (Quality of Life and Social Well-being) was higher than to Cluster 2 (Growth and Reduction of Income Poverty) over FY2013/14, with support to Cluster 3 (Governance and Accountability) remaining marginal (less than 5% of total MKUZA-related aid). As such, the share of ODA to social sectors, in particular health, remains relatively high compared to neighboring countries.¹⁰ MDA data, which shows aid disbursements per implementing ministry, is not very conclusive on the overall orientation of the aid portfolio. On one hand, the cumulated disbursed ODA to traditional social sectors (the Ministry of Health and the Ministry of Education) exceeded ODA to the traditional growth-focused sectors (Agriculture and Natural Resources and Infrastructure and Communication). However, the (by far) largest recipient of ODA over the year, the Ministry of Land, Housing, Water and Energy, cannot easily be categorized as being either social or growth-orientated. The table below outlines disbursements to the largest MDAs over FY2013/14, based on MDA data. It is noteworthy that, despite tourism being Zanzibar's largest source of growth, the

¹⁰ RGoZ, *Assessing a New Aid Modality in Zanzibar: The District Health Services basket Fund*, September 2014, page 9.

Ministry of Information, Culture, Tourism and Sports has received no foreign aid over the last fiscal year, and that the Ministry of Agriculture and Natural Resources has only received 1% of the total aid allocation.

Figure 2: Share of ODA disbursements per sector in FY2013/14



Source: MDA data through Aid Coordination Committee

There is some evidence that the heavy focus on social sectors is decreasing. While MDA data doesn't highlight a very linear trend in terms of the sectoral allocation of aid over recent years, the recent shift towards loans (as outlined in page 7) may indicate a progressive towards more growth-enhancing and infrastructure orientated projects.

ODA to (and from) NGOs remains either relatively limited ...or underreported. Both AMP and MDA data suggest that total ODA disbursed to NGOs was relatively small over FY2013/14, with AMP data reporting a total of US\$ 2.9 million (or Tsh 4.7 billion). There are indications though though that these numbers reflect weaknesses in reporting as much as the actual situation. Meanwhile, aid disbursed by local NGOs was reported to be only US\$ 1.5 million (or Tsh 2.4 billion) over FY2013/14, based on MoF data compiled through the quarterly NGO disbursement monitoring process.

AMP and MDA data provide little reliable information on the geographical implementation of projects within Zanzibar, both in terms of regional and district coverage. There is hope that the AMP, through the introduction of geo-coding, could address that issue in the medium-term.

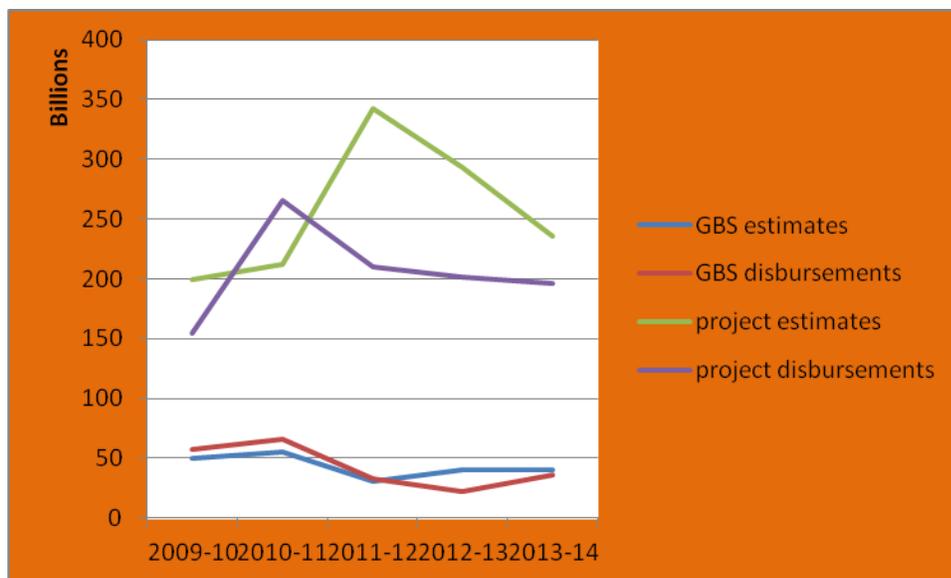
ODA and RGoZ accounting/budgetary systems

MDAs' projections of annual disbursements, as communicated to the Aid Coordination Committee, appear to be relatively reliable. Actual commitments entered by donors in the AMP, while now used for RGoZ budget preparation, remain incomplete. According to AMP data, total actual commitments represented 50% of total actual disbursements over FY2013/14. This low figure appears to be more the result of a number of DPs not entering commitment data rather than a general underestimation of disbursements.¹¹ On the other hand, projections, as laid down by MDAs, appear to have been a reasonably strong estimate of current disbursements (totaling 116% of actual disbursements over FY2013/14).

Looking at these projections on a quarterly basis, one notices that disbursements were closely matching projections over the first two quarters (with a less than 1% difference in both quarters), but that projections started becoming much less reliable in quarter three (with projections representing 64% of total disbursements) and completely unrealistic in quarter four (with projections more than three times higher than disbursements). The reasons for such deviations in quarter three and four remain unclear. **TO BE CROSS CHECKED WITH MDAs.**

Over the last five years, project aid has been less predictable than budget support. Figure 3, which uses MDA and budget book data, underscores that budget support estimates, as included in budget books, have been more predictable than such estimates for projects.

Figure 3: comparing the predictability of project and general budget support (Tsh)



Source: MDA data; budget books

¹¹ This is also due to some DPs entering that data for national projects as a whole, rather than their Zanzibar components.

When AMP actual commitments have been available, they have played an important role in the budget preparation process – arguably part of the rise in the budget estimates over FY14/15 compared to FY13/14 has been due to the use of AMP commitments data for the first time during FY2014/15 budget preparation.

According to AMP disbursement data, two thirds of total project aid was on budget over FY2013/14. Meanwhile, Tsh 235.4 billion (or US\$ 145 million) excluding budget support were included in the budget frame and budget books FY2013/14.

At the exception of budget support, ODA is not disbursed through the exchequer, limiting the integration of aid into RGoZ accounting systems. While AMP data currently doesn't capture well that dimension, MoF data indicates that only US\$ 2.5 million (or Tsh 6 billion) of project support was disbursed through the exchequer in FY13/14. Only four DPs, DANIDA, UNDP, UNICEF, and WHO, disbursed through the exchequer over the course of the year.

LOOKING FORWARD

The above analysis has underlined the continued challenges faced by RGoZ with regards to aid monitoring and management.

Among these challenges, RGoZ wishes to pinpoint a few priority areas that would require rapid progress: (i) the continued **over-dominance of project funding**, with its associated transaction costs and limited predictability, (ii) the **poor timing of budget support disbursements**, (iii) the **non-utilisation of the exchequer** for project disbursements, and (iv) the **mismatch between overall aid allocation and certain government priorities**, such as agriculture and tourism. Last but not least, as illustrated in this report, are the continued **challenges faced in aid data collection and monitoring**, despite the recent progress made. In that vein, RGoZ urges all Development Partners, in particular the larger ones, to enter aid data in the Aid Management Platform, including for Zanzibar, as outlined in the latest version of the AMP Guidance Note.

The Government, through the launch of the Zanzibar Development Implementation Strategy, the "Zanzibar Compact", in January 2015, intends to address these challenges in a comprehensive way, in close dialogue with its development stakeholders.

