IS GENERAL BUDGET SUPPORT TOO GOOD TO MAKE US RELUCTANT?

INTRODUCTION

Tanzania's budget is growing at a fast pace but foreign grants[1], in particular General budget support, are decreasing as a proportion. General Budget Support (GBS) had been predictable in the past few years but recent disbursements show inconsistency and declining amounts. The share of GBS is less than 5% in the 2014/2015 budget-down from 10% in 2009/2010. The decline means that Tanzania's budget is increasing every year faster (in nominal terms-without adjusting to inflation) and the additions are funded by increased domestic tax and commercial borrowing but GBS has been less static and contributes a decreasing proportion. It also means that the government is able to mobilize domestic revenues to finance the budget and that Tanzania is gradually reducing dependence on foreign aid. Apparently, however, Tanzania is also losing billions of shillings in tax exemptions - more than the amount received in GBS. If the government implements their 2014 plan to reduce tax exemptions it would boost domestic revenue collection and further reduce aid dependence.

This briefing analyses GBS in relation to tax exemptions. The analysis is intended for civil society organisations to inform their tax justice advocacy and other development actors in Tanzania.

GBS: DONOR MONEY FOR TANZANIA'S DEVELOPMENT

Budget support has been very important for Tanzania's development. GBS has helped increase in prioritized public expenditure and public service delivery in social and economic areas such as education, health, roads and water in particular[2]. A recent report[3] on GBS evaluation sheds light on the positive contribution of GBS to economic growth and progress towards the reduction of non-income poverty.

Budget support funds are basically tax payer's money from Donor countries but technically, GBS is Overseas Development Assistant (ODA) funds[4], channelled through the central government revenue account. The funds are meant to support the implementation of the recipient country's priority development plan - in this case Tanzania's Strategy for Growth and Reduction of Poverty, known by its Swahili acronym MKUKUTA II.

The significance of GBS is not only in increasing expenditure of the prioritised public goods, but it is also an efficient way to distribute development cooperation funds. It reduces the government's administrative burden of managing parallel structures and systems for aid supported projects. It also reduces the government's costs of donor transactions. Whether the reduction of transaction cost is real is a debatable question since coordination meetings among donors and between donors and the government

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1 Grants mean all concessesional development aid to the Tanzanian treasury. In addition to GBS, this means direct funding to sector budgets, soft loans, and projects that are channelled through the Ministry of Finance.

2 New General Budget support to Tanzania at http://www.norway.go.tz/News_and_events/Domestic-Revenue/General-Budget-Support-to-Tanzania/#.Uz0DU6JqOZQ

3 Joint Evaluation of Budget Support to Tanzania: lessons learned and recommendations for the future; Final Report: Volume 1, 2013

4 General budget support: Are donors abandoning Tanzania? a Policy Forum brief No. 03:2012

still require a lot of time. Nonetheless, GBS consistently uses the country's legal and institutional frameworks better than other aid instruments at enhancing national ownership and Government leadership, improving predictability and amenability to domestic accountability. When donors deliver aid through GBS they are also complying with the key principle of aid effectiveness; aligning donor's support to government priorities, systems, structures and procedures. The use of a single system for dialogue, review and assessment of GBS also increases harmonisation among development partners and increases GBS predictability[5].

GBS: MORE PREDICTABLE BUT DISBURSEMENTS ARE DECLINING

In the past few years GBS has increasingly been predictable. In the period between 2007/08 to 2012/13 GBS commitments were disbursed in full, occasionally surpassing the budgeted amounts. It means that Development Partners (DPs) are abiding to their commitments and deliver on their GBS promises. Table 1 below shows GBS commitments and actual disbursement in Tanzanian Shillings from 2007/08 to 2012/2013.

TABLE 1: GBS PAYMENTS AGAINST COMMITMENTS FROM 2007-2013 (TZS BILLIONS)

Financial year	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Amount budgeted	881.00	812.00	1194.00	822.00	869.00	842.50
Actual Disbursement	963.00	941.00	1215.00	928.00	916.00	919.57
% of actual payments	109	116	102	113	105	109

Source: Development Partners' GBS data table at http://www.tzdpg.or.tz/index.php?id=1254

The actual payments fluctuate but the proportion of disbursements has always been higher than the commitments. However, it is worth noting that GBS commitments are made prior to budget discussion and payments are made after the budget has been debated and approved by the parliament. Unfortunatley, some donors have been reluctant to state their commitment in advance. This might be due to uncertainty of future strategies in donor countries and partly due to political changes in Europe[6]. When some donors are not making their pledges clear in advance the budget value of GBS would be lower and as they decide to pay their contributions, the actual payments become relatively higher. Some donors, for example the African Development Bank, paid more than the anticipated amount in the beginning of last year and World Bank gave additional funding the year before[7]. Also payments are made in USD or in donor countries' currencies. Hence, the increased value of actual payments over budgeted (in TZS) could also represent an exchange rate gain as Tanzanian shilling has been growing weaker compared to the United States Dollar.

FOREIGN AID IN TANZANIA'S BUDGET: IS GBS MORE OR LESS?

Tanzania's budget is growing at pace but foreign aid is reducing gradually. Total expenditure rose from TZS 10.2 Trillion in 2010/11 to the estimated TZS 19.8 Trillion in 2014/15 – a massive increase of 94%[8]. Aid to Tanzania's budget increased from TZS 3,274.55 Billion in 2010/11 to the highest TZS 3,923.54 in 2011/12 before declining to TZS 2,941.60 Billion in the 2014/2015[9] budget. The decline is attributed to the impact of global economic slowdown that some countries are still implementing economic recovery measures and have had their aid-budget cut off. On the other hand, an optimistic perception that Tanzania is soon to be a middle income country with own resources from gas is another contributing

5 Andrew Lawson et al. Does General Budget Support work? Evidence from Tanzania, July 2005

6 Email Correspondence with the GBS Chairperson in Tanzania

7 Ibid

8 The amounts were not adjusted to inflation. In 2012 inflation was running at nearly 20% that would have influenced the amounts needed for the budget.

9 The 2014/15 figures are estimates based on Budget speech 2014/2015.

factor[10]. However, this might also mean that donors are gradually prioritising aid to other countries over Tanzania. The decreasing amount of foreign aid also affects the amount of GBS to the budget. While GBS had been predictable in the past few years, in recent years payments (in USD) have not been consistent and are slightly declining.Disbursements have declined from USD597 million in 2011/2012 to the most recent low commitment of USD 559 million for 2014/2015[11]. Budget support payment trends in constant and current USD value from 2007 base year are both shown in Chart 1 below.

As shown in chart 1 above GBS disbursements between 2007/08 to 2011/12 were fluctuating. Payments were higher ranging between USD776millions to USD 767mllions in 2007/08-2009/10 before falling to USD 534 in 2010/11. The lower payment in 2010/11was because development partners had actually paid more money (front-loading their support) to Tanzania in 2009/10 to support the country to overcome impacts of the global economic downturn. But since 2011/12 GBS appears to be slighlty declining. This gives an impression that DPs are ignoring Paris Declaration Principles[12] that the use of GBS is decreasing and donors are delivering more aid through projects (See also Chart 2 below).

It can be seen that during the period 2007/08 -2009/10 DPs were giving more GBS than Basket and Project support funds. Since GBS is paid through the central government, it means that DPs had more trust in the government and in the public financial management system or it might mean that donors were increasingly harmonising their support and abiding to the principles of aid effectiveness by delivering more aid through GBS (using country systems). But since 2010/11, GBS amounts fluctuate slightly and its percentage share of total grants is declining compared to project funds. GBS share of total grant fell from 34% to 31% while the proportion of project funds rose from 45% to 59% between 2010/11 and 2014/15 financial years. The decrease of foreign aid is not a genuine reason for the declining use of GBS. The most significant reason for the DPs' reluctance to give more GBS funds is because they are not happy with the government's sluggish pace to implement reforms and stagnation in the fight against corruption[13]. But as foreign aid to the budget is decreasing the country continues losing billions of shillings in tax exemptions.

GENERAL BUDGET SUPPORT AMID PLENTY?

Despite the declining proportions, Tanzania still receives a relatively large amount of foreign aid including general bedget support. But, the country has the potential to collect more tax revenues domestically. However, the government continues losing billions of shillings annually through various tax exemptions. In 2012/13 TZS 1.5 trillion were lost through various exemptions[14] while in 2013/14 the Tanzania Revenue Authority (TRA) reportedly lost TZS 1.8 Trillion due to various exemptions[15]. This amount is almost double the estimated TZS 922 Billion of GBS in the current financial year. In previous years tax exemptions were less than GBS received but the trend has changed recently.

TABLE 2: GBS COMPARED TO TAX EXEMPTIONS (BILLION TZS)

Financial year	2009/10	2010/11	2011/12	2012/2013	2013/14
Exemptions granted	680.66	1,016.32	1,806. 20	1,500.00	1,800.00
Actual GBS received	1,215.00	928.00	916.00	919.57	1,163.13

Source: Policy Forum Brief 3:2013, CAG report 2012/13; Budget speech 2014/15

10 Email exchange with the GBS chairperson in Tanzania on 2.9.2014

11 All figures for 2013/14 and 2014/15 show committments

12 A set of commitment organised aroung five key Principles that make aid more effective. For more details visit: http://effectivecooperation.org/files/resources/Paris%20Declaration%20in%20Brief%20ENGLISH.pdf

13 Tanzania pledges tighter financial discipline http://www.dw.de/tanzania-pledges-tighter-financial-discipline/a-17705533 accessed on 20.8.14

14 Chief Auditor General's Report 2012/13

15 Zitto Kabwe's email to Wanazuoni 'the intellectual forum'

Table 2 shows that the amount of GBS received in 2009/10 was almost double the amount of tax exemptions granted. But this has changed. Tax exemptions were TZS 188 billion higher than the TZS 928 billion received in GBS in 2010/11 and exemptions were almost double the amount of GBS in 2011/12. As the budget increases the government is also expected to collect more tax revenues to finance the growing budget expenditures. Apparently, the government is unable to raise sufficient tax revenues. Until April 2014 the government was able to collect 75% of the estimated TZS 10,395 billion in tax revenues for 2013/14, and estimated that by June it would have collected 93%.[16] Hence, a significant part of the budget is financed through commercial borrowing which also increased from TZS 153,948 billion in 2010/11 to 1320,000[17] in 2014/15. This is a problem because commercial borrowing has a damaging impact on the economy. International borrowing increases the national debt to be serviced in the future budget while borrowing from local market also creates a crowding out effect where banks favour giving loans to the government over small and medium enterprises, raising the interest rate, aggravating unemployment rate and consequently distorting the tax base. Recent trends show that commercial loan increases as tax exemption amount grows (see table 2 below).

TABLE 2: TAX EXEMPTION COMPARED TO COMMERCIAL LOANS 2011/12-2013/14 (TZS BILLIONS)

Years	2011/12	2012/13	2013/14 (estimates)
Tax exemptions	1016.32	1806.2	1800
Commercial loans	801.282	1063.006	1156.4

As the table above shows, from 2011/12 to 2013/14 the amounts granted in tax exemptions have always been more than the amount that the government is borrowing from commercial banks. But, until recently, the government has been reluctant listening to calls on reducing tax exemptions. The plan by the government to reduce some tax exemptions is now promising but the pace to review tax administration Bill has not been good enough to warrant implementation soon. If the government implements a plan to reduce tax exemptions -even by half of the recent amounts - it would have reduced the budget deficit, at least, to the equivalent of GBS and reduce the amount in commercial borrowing.

CONCLUSION

Although Tanzania's' budget is growing rapidly and on the other side foreign aid is decreasing, GBS remains significant for Tanzania's development. GBS has contributed positively in increased priority in public expenditure and basic social service delivery. While the budget is growing the government should step up efforts to collect more tax revenues to finance the growing expenditure, but a substantial amount of revenues is lost through tax exemptions. The amount lost through various tax exemptions annually is more than the amount received in GBS or the amount received in commercial loan. It is evident that Tanzania could reduce aid dependence significantly if tax exemptions are reduced and granted prudently.

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16 Ministry of Finance, Budget Speech 2014/15

17 The 2014/15 figures are estimates as presented in the 2014/15 budget speech.