

**Opening Statement at the 2011 GBS Annual Review by
H.E. Tim Clarke, Head of Delegation of the European Union
Chair of the PRBS Group of Development Partners in Tanzania**

[Protocols]

Mhe Waziri wa Fedha na Uchumi Mustafa Haidi Mkulo, Ma Katibu Wakuu, Ma Balozi, Mabibi na Mabwana. Karibuni sana. Kabla ya kuanza, napenda kuipongeza Tanzania kwa miaka 50 ya uhuru, na kwa jitihada zote zinazofanywa na serikali kuleta maendeleo kwa watazania wote. Nitaendelea kwa kiingereza...

Introduction

I would like to structure my opening remarks along the three priorities I outlined in May in Dodoma at the beginning of the EU Chairmanship of the GBS Development Partners group:

- Strengthening dialogue;
- Delivering tangible, measurable results;
- Improving accountability, mainly through key domestic institutions.

1) Strengthening Dialogue

In our view GBS dialogue – both formal and informal - has improved over the last year. We have regular and effective Troika meetings for our regular stock-take against results. Your personal role, Minister, has been crucial in bringing to the table all concerned parties at the appropriate level. Dialogue could still be improved, but we think we have made significant progress.

There is consensus amongst all of us here this morning that the high-level dialogue on the active fight against corruption has been fruitful. The quality and

the depth of the dialogue have made significant improvements in discussing this difficult and thorny issue.

Discussions around this year's budget have been complicated and perhaps not as transparent as we would have liked. You had indicated Minister that you were prepared to discuss elements of the budget under preparation prior to its formal approval by the Parliament. This did not happen and led to several months of uncertainty in our relationship. We believe that we should learn from this in the future so as to avoid such uncertainties. This is not a matter of in some way interfering with national sovereignty issues but simply assuring each other that agreed processes are on track.

Over the last weeks we have seen better conversations around the reviews of public expenditure – the PER. We recognize the progress but further efforts are needed to ensure we have efficient and permanent dialogue between technical groups from donors and government. A well-functioning PER dialogue is essential for GBS and I am encouraged, Minister, that this is fully acknowledged in the background paper the Government prepared for this Review.

Let me mention the excellent joint work to strengthen and reform the Performance Assessment Framework for GBS – the PAF. The new PAF will have greater government ownership and be more focused. This work is the culmination of 18 months' critical analysis to make GBS a more results-based instrument. It is our expectation that PAF 2012 – which we will all give input to tomorrow – can deliver a focused agenda of reform and action.

Good dialogue is an essential element for any partnership to work. However, and we need to be clear and honest about this, even the best dialogue is only a means

to an end. What really matters at the end of the day are results that demonstrate that through providing aid and General Budget Support in particular, we contribute to reducing poverty, promoting growth, improving social services and strengthening good governance in Tanzania.

2) Delivering tangible, measurable results

What can be said about results over the last year?

Overall PAF 11 performance has improved compared to last year. This is good news. We have done our best to avoid split ratings and the troika meeting earlier this week was immensely helpful in getting us on the same page vis-à-vis a finally rated PAF 2011. It is my hope that we now get into the details of these results and celebrate success and work out a menu of options for remaining challenges.

However, looking across the PAF, performance has been weakest in the area of Outcome Indicators (OIs). This is a concern because this is where we look for results. But we need to reflect fairly when we get into the detail on the indicators. As we all know we are tracking the MDGs and the Mkukuta and Mkuza targets. These are targets we want to reach - and 'not achieving' a result should lead to dialogue and technical discussions.

We both need a dialogue that asks constructive questions: "why didn't we reach that target?" and "what other policy choices might we consider?"

The reason this is of paramount importance is because budget support is often criticized for the lack of clear attributable results. We must ensure that all indicators and actions included in the PAF are measurable and can be assessed on the basis of reliable data. In this year's PAF this has been a challenge, in particular

for pretty much all of Cluster III indicators. A lesson for tomorrow's PAF 2012 discussions perhaps.

I do not want to limit myself however to these general observations but also highlight a number of specific achievements and challenges:

1. As mentioned before dialogue on **anti-corruption** has improved significantly and some commitments have been delivered such as the publication of the National Governance and Corruption Survey. Going forward, it will be important to see clear evidence that the fight against corruption remains high on the government's agenda and that further specific progress is achieved. That is why we will be seeking to engage actively with government on how its response to the survey's findings can have real impact. We need to re-balance our discussions to make sure we don't lose sight on petty corruption that eats away at the poorest - who rarely have any form of redress. We also hope to see clearer progress on anti-corruption related legislation including right to information legislation.
2. Tanzania continues to face a broad set of challenges related to the **business and investment climate**. These need to be addressed not only to encourage private investment (local and foreign) but also to boost the creation and expansion of SMEs, which are key to job creation and innovation-driven growth. Further improvements are also needed to produce productivity gains in the agriculture sector that employs 75% of the labor force and remains the country's main comparative advantage. The Tanzanian economy has relied heavily on one engine – public sector expansion, while the private sector and

private/public partnerships should gradually become additional drivers of economic growth.

3. The **2011 Rapid Budget Analysis** confirms (and I quote): "By all standards the Tanzanian economy continues to perform well, reporting 6-7% growth and relatively stable balances". At the same time fiscal deficits have been growing and inflation has increased significantly over the past couple of years. The recent agreement with the IMF to cut the fiscal deficit to 6.5 percent of GDP for 2011/12 is welcome. But fiscal risks around the Emergency Energy Plan and the accumulated arrears in the road sector are a concern for us all especially the unknown size of the arrears. We also have to note the recent trends in the relative stagnation of revenues (as a share of GDP), and the decline in aid inflows. On the latter let's be frank, in the current global climate aid inflows from your traditional donors might have peaked and we need to adjust both our projections and possibly find a different way of engaging in the future. All of this makes it important to reduce recurrent expenditure in the budget, which has increased sharply over recent years, and allow for more investments in critical areas such as energy and transport infrastructure.

4. As decentralization by devolution takes hold, the **quality of local government administration** becomes crucial for fair and equal social services – schooling for 5 year olds, tetanus vaccination for new-borns. As GBS partners these practical challenges have to remain at the very centre of our efforts. In this context, further progress in Public Service Reform, in particular the implementation of a reformed Pay and Incentives Policy is important to make work in hard to reach areas more attractive.

5. Finally, dialogue on **Public Financial Management** is constructive and work on a new 5-year strategy is well advanced. We have seen good progress in procurement even if the relevant PAF indicator was missed this year. The National Audit Office serves as a model in the region but following up and implementing the CAG's recommendations is essential. Likewise – budget information including that at local level needs to be available to all, for scrutiny by all.

As I have said before results matter more than ever before in the context of the current global economic downturn. And results are the reason **why we invest** in GBS.

At the same time we should not forget that budget support is still a relatively "young aid modality".

At global level, we still have relatively little evidence on whether budget support is delivering enough. But the results of three pilot impact evaluations in Tunisia, Zambia and Mali are encouraging and well-summarized in the government's background paper for this Review. I drew out two issues from reading the summary note which I think will ring true to this audience here in Tanzania.

First, GBS gives welcome space to government to follow their national priorities and increase discretionary financing. Second, GBS does not 'buy reforms' but can effectively support national policy choices.

As you know a similar evaluation of GBS is about to start in Tanzania and I hope that this time next year we will be in a position to have a better informed discussion on the impact of GBS based on the evaluation.

3) Improving accountability

The third priority of our Chairmanship is accountability. Let me in this context again refer to the government's background paper which lists one of the advantages of GBS as "promoting Government accountability **to Tanzanian citizens** shifting from the Development Partners". We fully subscribe to this principle.

As GBS Chair we have tried to contribute to the process of strengthening of domestic accountability. We have met with the Bunge Oversight Committees who mentioned some important priorities for 2012 and beyond: energy, rural roads, judicial reform, and timely availability of resources.

We also engage on a regular basis with key oversight institutions such as the Controller and Auditor General. We had discussions about the way GBS operates, the PAF and how we see the instrument developing.

Civil society organizations and the media play a role too. As development partners our own institutions play an active role in shaping development policy and priorities. They demand accountability and transparency. And we share that view.

In this context, strengthening the capacities of Parliament and of National Oversight Institutions so that they can exercise their functions more effectively is without doubt one of the major contributions Development Partners can make to strengthen domestic accountability. At the same time we accept that you, Minister, and permanent secretaries, are our contractual partners. As we look towards a future 'beyond aid' we must address the domestic audience together – as partners.

Only when the public understand what is being done with their money and how it is accounted for, might they be expected to bring their knowledge, their needs and their support to bear to improve public service delivery. The budgetary process could be simpler and easier to understand, approved budgets could be more accessible, from Bunge to district health centers and village schools. As a step in making such information more widely accessible, we warmly welcome the recent decision by the Ministry of Finance to publish the Citizen's Budget for Financial Year 11/12.

The second main element is transparency and this is why it is so important that our discussions over the next two days fully feed into the Annual National Policy Dialogue with a wide range of stakeholders at the end of January.

Accountability is however, also mutual and shared by Government and GBS partners. We have signed a new Partnership Framework Memorandum in May and it is important that we both live up to our commitments. Let's meet on the dates and times we agreed, let's post the key budget documents on time; let's disburse our GBS when we say we are going to. Let our accountability to each other be professional, business-like.

GBS predictability is likely to be a hot topic for discussion this year. Predictability rests on managing our processes through the year in an orderly fashion – that's why we have a memorandum of understanding. Underpinning that agreement is trust. And the earlier we address emerging concerns through frank and constructive dialogue, the better.

Conclusion

At the risk of repeating myself please let me recap on our focal areas as Chair of General Budget Support in 2011 and 2012.

Dialogue - we can improve the way we interact and approach dialogue. Our relationship should be symbiotic: Government gets access to crucial resources, skills, ideas, and we jointly track results.

Results – this is why we make such a significant contribution to your national budget. In doing that, we support your preferred aid modality and help you deliver quality services and the chance of a better life for all Tanzanians.

Accountability – is your national checks and balances. We must now shift attention away from you answering mainly to donors, towards the citizens of Tanzania, its Parliament, media, and wider organs of civil society.

As many of you know I will be leaving Tanzania in a matter of days and I feel a great honour to have managed general budget support through some challenging times. I believe we have jointly reformed the instrument – especially the PAF - which has taken a huge amount of effort over the last 18 months. General budget support is at present under the spotlight but I remain convinced that demonstrating results will enable us to deliver finance into your preferred aid modality. The next two days are crucial – we have a new lighter review format which fits neatly with our attempts to lighten the PAF. But now let's get on with our core business and reflect on what's happened in Tanzania's development over the last few years, and dream a little of where Tanzania is heading.

CLOSING REMARKS BY H.E. MR. TIM CLARKE, HEAD OF EU DELEGATION; CHAIR OF PRBS
GROUP OF DONORS

This was a good review. We've had constructive discussions and there were conversations and debates that we want to see more of. Dialogue works when we as partners exchange ideas, respond directly to each other's points, and challenge each other in the spirit of equal partnership.

There will of course be a formal report on our exchanges but let me highlight ten points from the last two days:

1. **Our dialogue is open, frank and transparent.** I think the mutual trust and confidence is back on track. I particularly welcome Minister Mkulo's immediate response yesterday to our request for deeper dialogue on the preparation of the budget. This will be a great help in our discussions next year.
2. **There is unanimous support for getting the public expenditure review process back on track.** And I hear we really mean it this time. Improving our joint analytical work in tandem with the continuing reforms across the management of public finances will help us work together to ensure a more effective use of fiscal policy and get the best value for money from public funds.
3. **The challenges facing Tanzania are enormous** and the discussions emphasized the need for collective attention on: the private sector – enabling investment to grow; education quality – in primary and secondary schools; collecting more domestic revenue – to make investments for a rapidly growing population; and ensuring that the fight against corruption remains active and delivers results.
4. **If I may highlight one sector – energy.** The sector needs massive support – from institutional unbundling, increasing tariffs, megawatt capacity that includes more renewable generation, to rural access to electricity – Tanzania needs to break the cycle of energy crises and provide sustainable and reliable electricity to fire up the private sector engine. We are ready to work with you.
5. In the current economic climate **general budget support of around \$500 million per year is unlikely to increase.** But as your donor partners we are striving to retain the

current levels of support, making it more predictable, and working together to make the most efficient use of it by delivering development results.

6. As Permanent Secretary Lyimo said yesterday general budget support gives us access to dialogue on cross cutting issues with key decision-makers and informers that no other aid modality can. And critically it **accounts to the domestic audience** as seen from today's newspapers where our conversations are front page news – even if the newspapers' messages were not exactly balanced!
7. The PAF. Let's be crystal clear that this year's performance is markedly better. We asked last year for better PAF performance and you delivered it, and even those processes rated unsatisfactory were joint assessments providing the basis for action going forwards. **Overall, we would rate the PAF 11 as satisfactory.**

PAF 2012 should help us focus on the strategic challenges over the coming years and we have an ambitious time-table ahead of us to allow presentation of the endorsed PAF to the Annual National Policy Dialogue event in late January with representatives from Parliament, civil society, and the private sector. Let me be honest, we had hoped to make more progress on PAF 12 during the GBS review. We agree on the criteria and the strategic directions for the way ahead. So let us continue our good joint work over the next weeks to meet our ambitious timetable.

8. **Strong political leadership for implementing what are referred to as 'cross cutting' reforms is essential.** These reforms include multiple Ministries, Agencies and Departments, and coordination is complex and full of hidden challenges. Two reforms that underpin general budget support, that we urge you Minister and colleagues to energize and help deliver, are the fourth phase of the public financial management programme discussed this morning, and the local government reforms that can only happen with the predictable flow of funds to allow local government authorities to provide better quality services for all.
9. On our side we acknowledge slippage in our disbursements this financial year. **We make a pledge to work harder to improve our predictability** and in the same vein may I echo the Minister's point yesterday that in future we sort out any problems we encounter at the earliest opportunity.
10. At the budget session yesterday we heard the Tanzanian economy continues to grow at an impressive 6-7%. As a result, the share of GBS as a percentage of GDP is going down.

This is not a failure but should be celebrated as Tanzania's success, and points to a future development journey beyond aid. The next challenge, for both of us, is not only achieving rapid growth but also sharing this growth with the maximum number of people leading to a significant decline in poverty.

In conclusion, let's build on the positive momentum this meeting has generated. There is a much better atmosphere compared with previous reviews – the partnership really is getting back to where we want it to be.

Let's keep **the dialogue** well informed, useful, productive, focused. Let's aim for even better **results** clearly articulated in a strategic PAF. And let's be serious about mutual **accountability** - jointly answerable to the people of Tanzania. I would like to thank Minister Mkulo and his staff for their excellent cooperation during the year. The improved quality of this year's dialogue is a reflection of the quality of the work done by his team. I should also mention my team under the leadership of Enrico Strampelli, EU Head of Cooperation, and my Troika colleagues.

Nawashukuru wote kwa michango yenu mizuri inayolenga kujenga mahusiano mazuri baina ya Wahisani na Serikali. Nawatakia kila la kheri katika maadhimisho ya miaka hamsini ya uhuru.