National Budget Brief 2018 Zanzibar

Key messages and recommendations

- Zanzibar has maintained impressive growth; government revenues and expenditures are expanding rapidly. In FY 2017/18, the approved budget totals TShs 1.087 trillion (USD 483 million) which is a 29 per cent increase in total expenditures in nominal terms or 26 per cent in real terms.
- The prioritization of child-focused sectors in the budget falls short of international commitments. While education spending is set to be 18 per cent of total government expenditure, close to the international target of 20 per cent, health spending will make up only 8 per cent of total expenditure, much lower than the international target of 15 per cent.
- With a young and growing population, the Government needs to increase the proportion of the budget dedicated to social welfare, child protection, education, nutrition and health, in order to have the resources available to fulfil the basic rights of children.
- Large increases to civil servants' base salary, 100 per cent increases at the lowest level, present an opportunity to reduce the dependence on allowances to supplement wages.
- The share of development spending in the national budget increased from 17 per cent to 46 per cent between 2013/14 and 2017/18. On the other hand, the share of recurrent budget decreased from 83 per cent to 54 per cent for the same period.
- Budget execution rates for the development budgets have been declining since FY 2013/14. The development budget which executed 90 per cent of its budget in FY 2013/14 experienced weak performance with the execution rate which was standing at 55 per cent (FY 2016/17)
- The development budget has been expanding rapidly but is still dominated by donors. Government contribution is on the rise, an opportunity for development projects to be more closely aligned to government priorities.
- Improvements in revenue forecasting and budgeting have assisted ministries, departments and agencies (MDAs) to plan and implement activities. MDAs reported uncertainty around the timing of disbursements as one of the most pressing challenges, an example of how public financial management bottlenecks can impact on services for children.

SMZ SERIKALI YA MAPINDUZI ZANZIBAR

unicef

- **The FY 2017/18 budget is providing subsidies to parastatal organizations equivalent to 10 per cent of domestic revenues. The revenue generated by parastatal organizations such as the Zanzibar Electricity Corporation (ZECO), is equivalent to approximately 1 per cent of domestic revenues. Increasing the competitiveness and returns generated by parastatal organizations could free up fiscal space for children.**
- **Prudent fiscal management in FY 2016/17, reducing high-interest domestic debt, will free up more resources in the medium term.**

The recent transition to programme-based budgeting (PBB) has been successful, however more work is needed to complete the reform.

SECTION 1: MACRO AND SOCIOECONOMIC CONTEXT

The Zanzibar population is young with 49 per cent being 17 years old or younger, and 16 per cent being children between 0 and 4 years old (*see Table 1*). The majority of the population live on two large islands Unguja and Pemba. There are stark differences between the two islands in terms of income, employment and fertility. The fertility rate in Zanzibar overall is high, but particularly so in Pemba, which has one of the highest fertility rates in the world. At an average of 6.8 births per woman, the fertility rate is just lower than the country of Niger (7.3), which has the highest fertility rate in the world.[1]

Table 1: Zanzibar key socioeconomic statistics

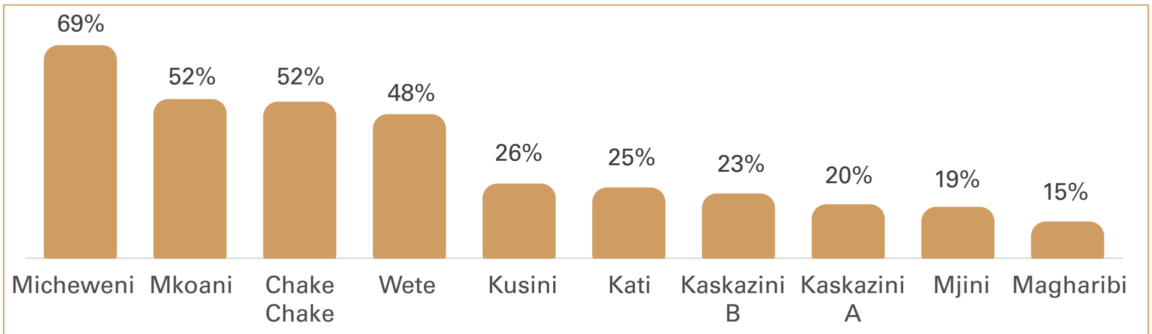
Total population (2017)	1,534,291
Child population 0–17 years old (2017)	49%
Child population 0–4 years old (2017)	16%
Fertility rate (2017)	4.6
Unguja	4.4
Pemba	6.8
Basic needs poverty (2014/15)	30.4%
Child poverty rate (national basic needs poverty line) (2014/15)	35 %
Zanzibar Multidimensional Poverty Index (2013)	43.3%
Zanzibar Multidimensional Extreme Poverty Index (2013)	16.6%
Life expectancy (2017)	67.3
Infant mortality rate (2017)	31.3
Primary school net attendance rate	83.7%

[1] https://data.worldbank.org/indicator/SP.DYN.TFRT.IN?year_high_desc=true

Adult literacy rate (2014/15)	83.6%
Females married (aged 15–24 years)	24%
No toilet, seashore, field defecation rate (2014/15)	16.3%
HIV rate (2011/12)	1.5%
Unguja	1.2%
Pemba	0.3%

Source: NBS Population Projections, 2017; Zanzibar HBS, 2014/2015; United Nations Development Programme (UNDP); United Republic of Tanzania (URT); OPM; Save the Children.

Figure 1: Basic needs poverty headcount rate by district



Source: URT, 2014/15.

Zanzibar is a low-income country with an annual per capita income of US$ 936 (as of 2014).[2] With a 5-year average per capita income growth rate of 6.5 per cent, Zanzibar should achieve lower-middle income status (current threshold of $1,006) in the near future.[3]

There are concerns about the mismatch between high growth rates and the pace of poverty reduction. Despite a cumulative economic growth rate of 39.1 per cent in the past five years (6.5 per cent average growth per annum), poverty incidence has only declined by a cumulative 4.5 per cent during the same period.

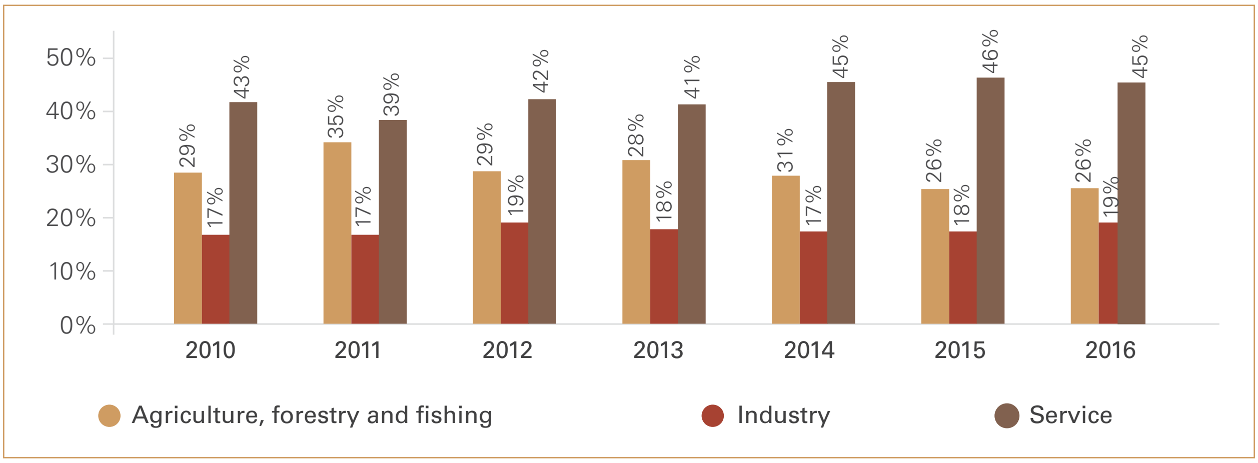
Economic growth is gradually less determined by agriculture and fishing (3.5 per cent average decrease over the past seven years) with increasing contributions from the industry and service sectors. The increasing contribution of the former averaged 1.3 per cent, whereas that of the latter averaged 2.2 per cent.[4]

The increasing contribution of the industry sector largely comes from the expanding mining and quarrying subsectors.

The service sector has the largest gross domestic product (GDP) share (*see Figure 2*) and its growing contribution has been mainly driven by tourism. In 2016, a total of 376,242 visitors were registered, which is more than twice the number of visitors in 2012 (169,223 visitors). Figure 2 shows that growth has been less volatile in recent years as compared to 2010-2013. As a small country, heavily dependent on imported goods, large changes in the price of oil and other imports have a marked impact on growth. Despite visitors from Europe continuing to dominate the market, visitors from emerging markets, particularly China and India have been increasing, reflecting increased tourism to Zanzibar from non-traditional markets.[5]

[2] RGoZ budget speech, 2014/15.
[3] OCGS.
[4] OCGS and BoT calculation.
[5] RGoZ budget speech, FY 2017/18.

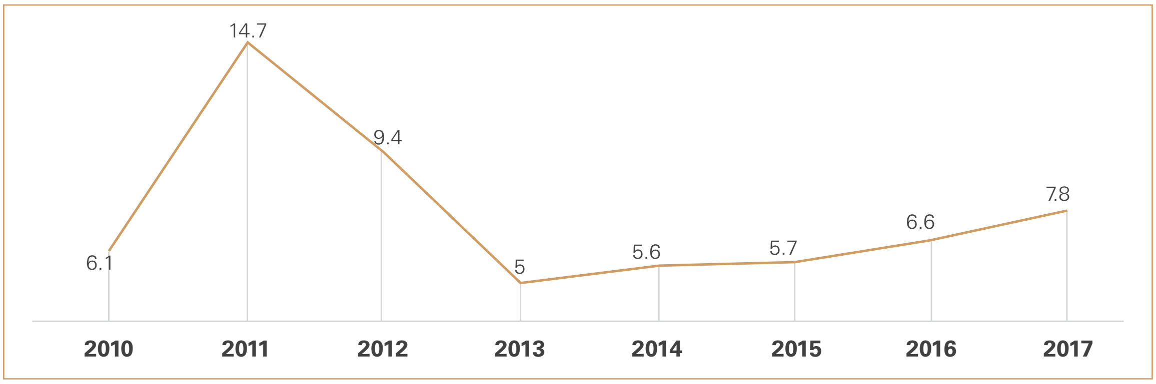
Figure 2: Sector share in GDP



Source: OCGS, 2016; Bank of Tanzania (BoT), 2017.

Following the global financial crisis in 2008 and the ensuing food and energy crisis, Zanzibar has seen a turnaround in macroeconomic conditions. During the global financial crisis, Zanzibar faced double digit inflation, reaching 20.6 per cent in 2008. In the past five years, the inflation rate has averaged 6.1 per cent, down from 9.4 per cent in 2012 *(see Figure 3)*.[6] Tax revenue has increased to 22.6 per cent of GDP,[7] far better than East African neighbouring countries (Tanzania mainland: 11.7 per cent, and Uganda: 11.0 per cent), and growth has remained high and stable at almost 7 per cent (*see Figure 4*).

Figure 3: Headline inflation

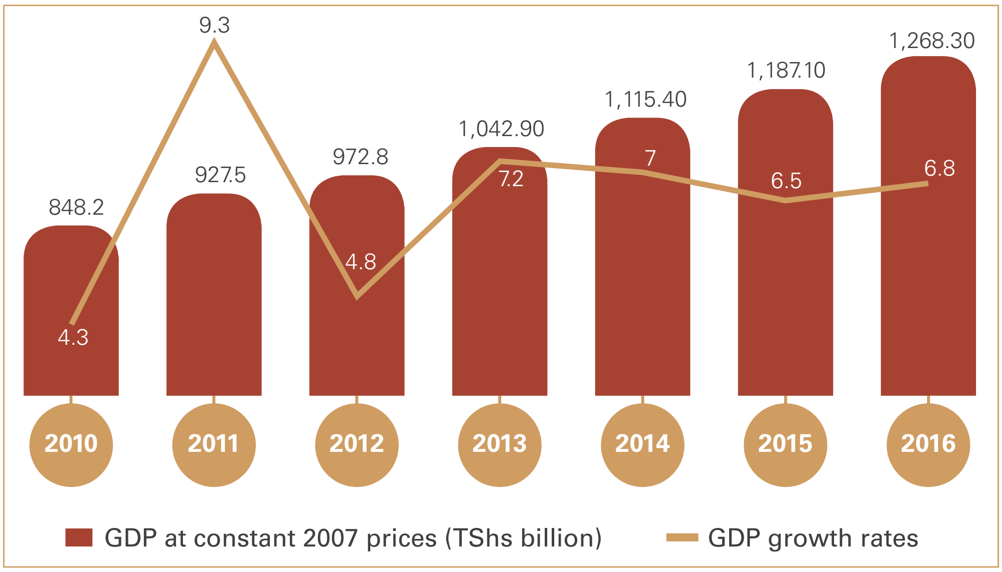


Source: OCGS, 2017.

Unemployment is a pressing economic and social concern. The number of people of working age increased by 51 per cent from 2006 to 2014. The unemployment rate has risen from 5.5 per cent in 2006 to 14.3 per cent in 2014. Unemployment is higher in urban areas (23.3 per cent) as compared to rural areas (7.5 per cent), and is higher for women in urban areas (22.9 per cent) as compared to men in urban areas (6 per cent).[8]

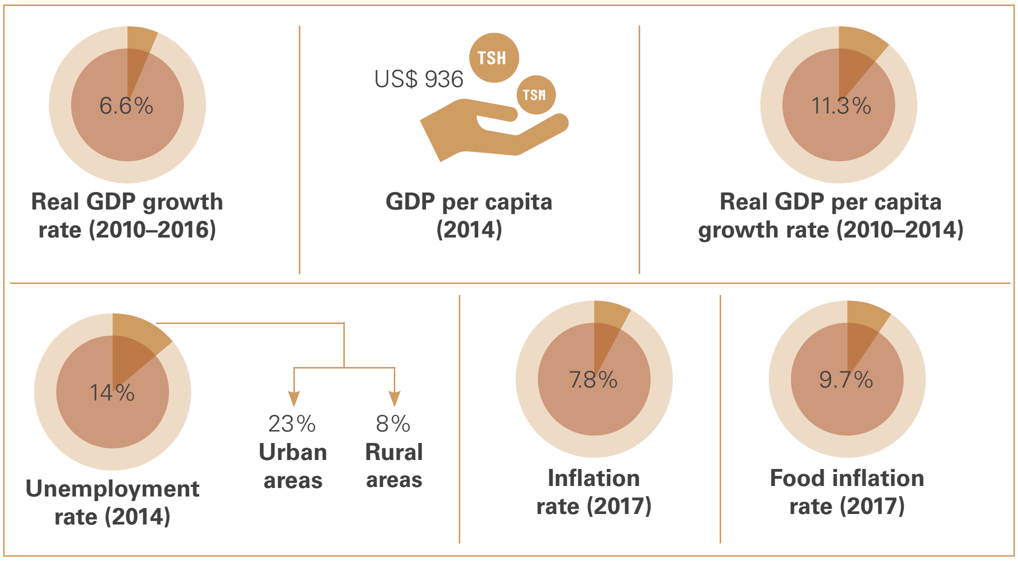
[6] BoT and OCGS.
[7] RGoZ budget speech, FY 2017/18.
[8] Ministry of Labour, Empowerment, Elders, Youth, Women and Children, 2014.

Figure 4: GDP at constant prices and real GDP growth rates



Source: OCGS.

Figure 5: Key economic statistics

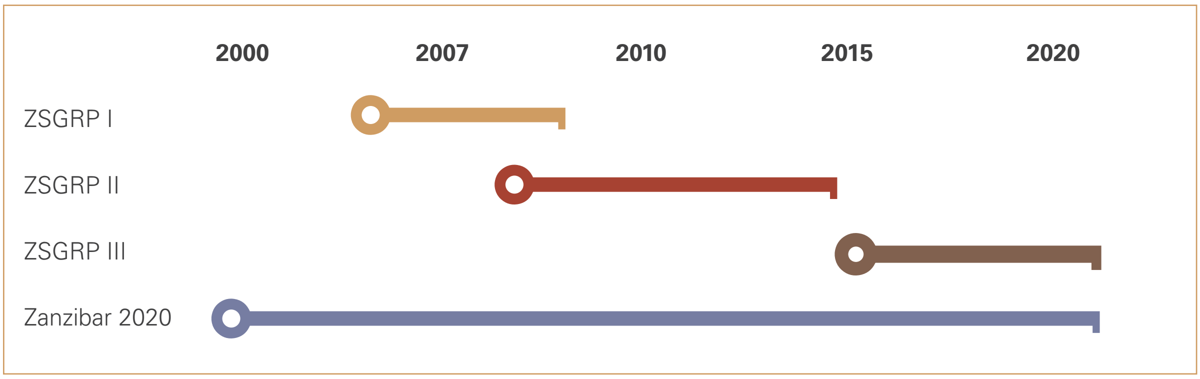


Source: OCGS, BoT and RGoZ.

Key national policy documents

The Zanzibar Strategy for Growth and Reduction of Poverty III (ZSGRP, better known by its Kiswahili acronym: MKUZA III) which was developed on lessons learned from MKUZA I and II (*see Figure 6*) takes a different approach from its predecessors, by using key result areas (KRAs) to ensure a focused, prioritized and results-based strategy. The five KRAs are: sustainable and inclusive growth; human capital development; quality services; environmental sustainability and climate resilience; and good governance. MKUZA III is also closely linked to Agenda 2030 and its respective Sustainable Development Goals (SDGs). For instance, the seven outcomes under Key Results Area A all relate to both SDG1 (end poverty in all its forms, everywhere) and SDG8 (promote strong, inclusive and sustainable economic growth and decent work for all).

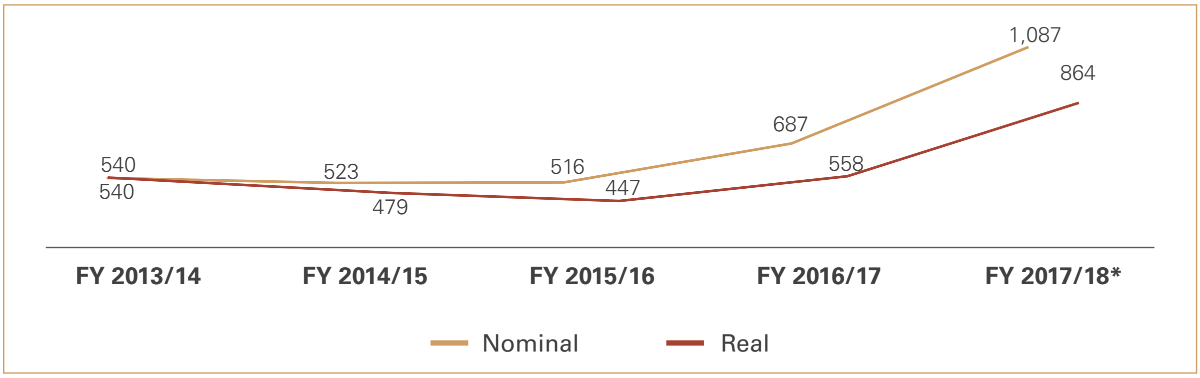
Figure 6: Timelines of the medium- and long-term development strategies



SECTION 2: SPENDING PRIORITIES

The Zanzibar Government budget has been expanding rapidly with an average annual real growth rate of 21 per cent over the past five years. In FY 2017/18, for instance, the total government approved budget is set to increase from TSh 841 billion to TSh 1.087 trillion compared to the previous financial year (*see Figure 7*). This is a 29 per cent increase in total expenditure in nominal terms or 26 per cent in real terms. FY 2017/18 marks the first time the Zanzibar Government has exceeded a TSh 1 trillion budget framework. Comparing the real government growth rate (26 per cent) to the average GDP growth of almost 6.5 per cent shows that the Government is accounting for an increasing share of the national economy.

Figure 7: Government of Zanzibar: Total actual expenditure (TSh billion)



Source: Ministry of Finance and Planning (MoFP).
* Approved expenditure

In FY 2017/18 the Government is planning to reduce borrowing from domestic resources to TSh 30 billion (4.6 per cent of domestic revenue) from the planned borrowing of TSh 34.3 billion in the preceding FY.[9] The trend will reduce the risk of government spending to crowd out the private sector in financial markets.

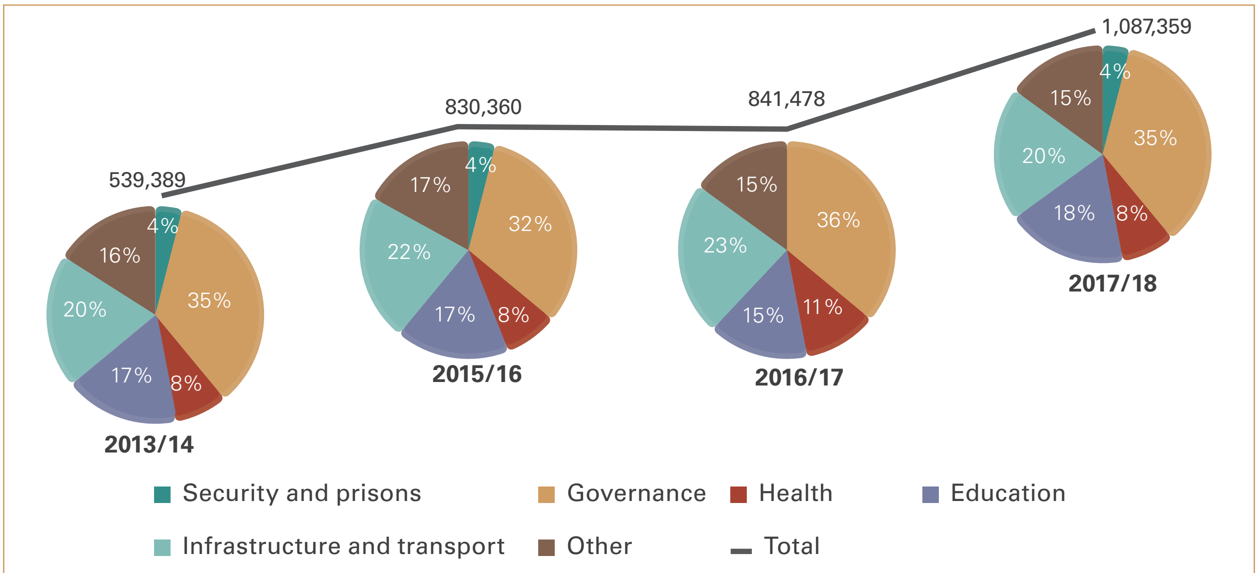
While total government spending has been increasing, sector allocations as a percentage of total government spending have remained stable. As a small country with a small government (actual government spending was 20 per cent of the total GDP),[10] the administrative costs of government are high compared to overall spending. Figure 8 shows that the governance sector is estimated to attract 35 per cent of the total budget. This sector includes MDAs such as MoFP, House of Representatives (HoR) and the Controller and Auditor General (CAG). A significant portion of spending on governance activities comprises pension payments to retiring civil servants whose minimum payout has been doubled from the current financial year (approximately 8 per cent of total expenditure in 2017/18). Good governance is among the seven priority sectors in the national budget framework for FY 2017/18[11] and one of the KRAs in ZSRGP III.

[9] IFMIS and budget speech.
[10] Budget speech, actual spending/GDP, 2015/16.
[11] Other priority areas included social sectors, housing and clean water, tourism sector, infrastructure, developing entry points (including ports and air ports), and investments in small and medium industries to curb unemployment.

The second largest sector is infrastructure and transport at 20 per cent of total expenditure, consisting of the Ministry of Construction, Communication and Transport (*see Figure 8*). A large proportion of this spending (43 per cent) is for airport construction, which is expected to be partly funded by an EXIM bank (Chinese Development Bank) loan. Over the years, government priorities in infrastructure development included rehabilitation and development of sea ports and airports in Pemba and Unguja, road rehabilitation and upgrading and strengthening infrastructure for better connectivity.

Sector shares for health and education have remained relatively stable with gradual increases to education since FY 2015/16. In the approved budget for FY 2017/18, health attracts only 8 per cent of total expenditure, which is much lower than the international target of 15 per cent. The education sector, however, attracts 18 per cent of total expenditure, which is close to the international target of 20 per cent. Education spending is gaining importance in the national budget following the abolition of parents' contributions, the increasing number of children enrolling for primary education (due to the abolition of parents' contribution) and the government programme to complete primary school infrastructure.

Figure 8: National approved budget sector shares



Source: IFMIS, MoFP.

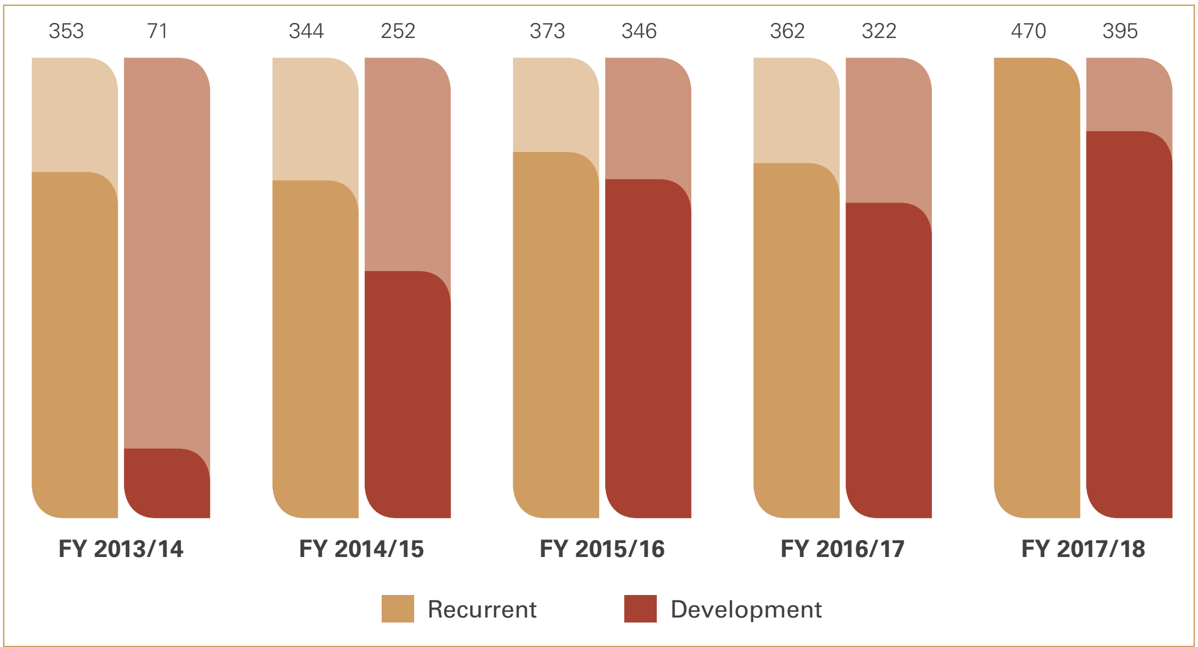
Takeaways

- The national budget increased to TSh 1.087 trillion, a 26 per cent real increase on the previous year's approved budget.
- National government expenditures are increasing at a faster rate than GDP growth, meaning that the Government accounts for an increasing share of the economy.
- While both the health and education sectors have received real increases to their budgets in the 2017/18, their shares in the national budget remain relatively stable. The education sector increased from 17 per cent to 18 per cent of the national budget while the health sector remained stable at 8 per cent of the national budget. This is short of the Education for All commitment (20 per cent of the budget for education) and well short of the Abuja Declaration (15 per cent of the budget for health).

SECTION 3. SPENDING TRENDS

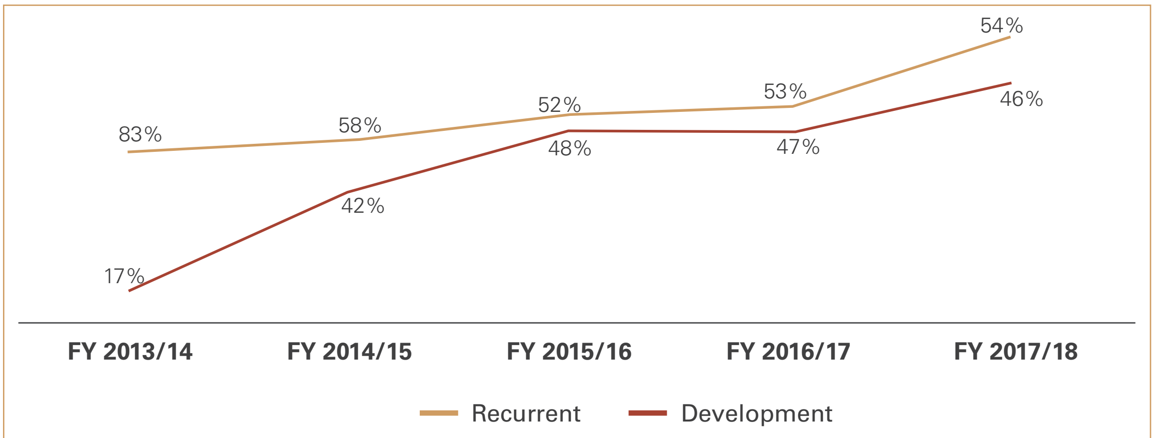
Following a similar trend as Tanzania mainland, Zanzibar has prioritized development spending for the past five years. Approved budget estimates showed the development budget has more than doubled, from TSh 71 billion in FY 2013/14 to TSh 252 billion in FY 2014/15, after adjusting for inflation (*see Figure 9*). This is a 450 per cent increase compared to the 33 per cent increase in recurrent spending for the same time period. The share of development spending in the national budget also increased from 17 per cent to 46 per cent over the same period of time (*see Figure 10*). However, the recurrent budget is highly executed (above 90 per cent of the budget) against around 50 per cent execution rate for the development budget. The weak performance of development spending relative to recurrent spending means a greater proportion of the allocation is dedicated to recurrent than development heads during the time of spending the national budget.

Figure 9: Inflation-adjusted development spending (TSh million)



Source: Integrated Financial Management Information System (IFMIS), MoFP.

Figure 10: Recurrent and development spending shares in the national budget



Source: IFMIS, MoFP.

Despite the domination of foreign sources in development spending (89 per cent in 2017/18), the Government has increased its own contribution by 60 per cent in real terms from FY 2016/17 to FY 2017/18.[12] Large infrastructure projects over the past 10 years have included the undersea power cable from Tanzania mainland, fibre cable, power transmission lines, and roads and airport upgrading.

The recent increase in the wage bill, from TSh 431 billion in FY 2015/16 to TSh 591 billion in FY 2017/18, is largely due to an increase in civil servants' wages and new promotions rather than new hiring. From FY 2017/18 employees at the lowest level will receive a wage increase equivalent to 100 per cent of their previous salary (from a monthly salary of TSh 150,000 to TSh 300,000). Wages and salaries are expected to consume as much as 48.2 per cent of domestic revenue.[13]

Allowances and per diems make up a large segment of the wage bill. The last Public Expenditure Review (PER) to examine this issue showed that allowances at an aggregate level were equivalent to 81 per cent of total base salary.[14] Excessive use of allowances can create perverse incentives and can affect the efficient operation of the civil service. Certain roles may have greater access to allowances and will then be preferred while roles with little access to allowances may be neglected.[15]

The major share of the spending on allowances could be transferred to the wage bill. Wages can be more closely tied to performance through promotion which is much more transparent and closely regulated. Wage reform should roll most of these allowances into wages.

Takeaways

- Over the past five years there has been a rebalancing of resources from recurrent spending to development spending (spending on infrastructure).
- Despite foreign resources dominating development spending (89 per cent in FY 2017/18), the Government has over the past years increased its own contribution. Almost half of the development budget is for airport construction.
- A large increase in civil servants' wages provides an opportunity to return allowances to their original purpose, that is, compensation for expenses incurred.

[12] IFMIS, MoFP.
[13] Budget speech, FY 2017/18.
[14] RGoZ and World Bank, 2003.
[15] NORAD, 2012.

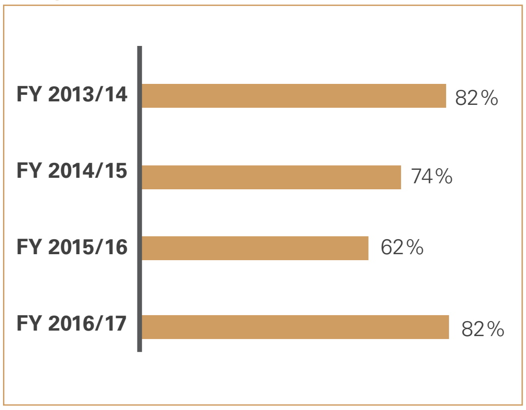
SECTION 4: BUDGET CREDIBILITY AND EXECUTION

With renewed effort on behalf of the Government, impressive growth and increased revenue generation, major improvements have been realized in both budget execution and cash management since 2014/15. From FY 2017/18 the MoFP moved from monthly to quarterly disbursement of funds. This gives MDAs the ability to manage their budgets more effectively and to prioritize spending. Until the current FY, heads of line ministries would meet in order to prioritize resources available on a monthly basis (cash budgeting or cash rationing).

Improved cash management has only become possible due to improved revenue projection and a commitment to realistic budgeting. Improved revenue projection is evidenced by increasing revenue outturns (actual collection as a percentage of projections) from 91 per cent in FY 2012/13 to 98 per cent in FY 2015/16.[16] Improvements in budget execution in 2016/17 is attributed to the National Ceiling Committee that meets monthly to approve disbursement in accordance with each line ministry's in-cash plan.

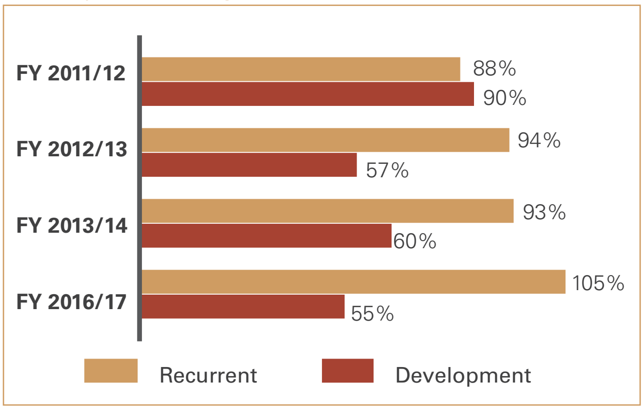
Budget execution rates for the national budgets declined from FY 2013/14 but picked-up again in FY 2016/17 (*see Figure 11*). This trend is mostly due to the weak performance of the development component of the budget (*see Figure 12*). The development budget, which executed 60 per cent of its budget in FY 2013/14, experienced weak performance with the execution rate standing at 55 per cent in FY 2016/17). Overly ambitious budget estimates put at risk the credibility of the budget in the past and efforts are needed for improvement. The volatility of foreign resources – the most recent case being the substantial decline in general budget support (GBS) – has also contributed to poor execution. When facing revenue shortfalls, the Government has prioritized the payment of salaries. Spending, classified as other charges, which goes towards items such as travel, office supplies and utilities, has been particularly vulnerable to in-year cuts. This has affected the implementation of MDAs' planned activities.

Figure 11: Budget execution rate – national budget



Source: MoFP (actuals were obtained from budget speeches).

Figure 12: Budget execution rate – recurrent and development budgets



Source: IFMIS, MoFP.

Takeaways

- Major improvements in revenue forecasting have had a knock-on effect, improving other public financial management systems. Execution rates have also improved as there is less need for in-year budget cuts.
- MDAs have also reported improvements in planning with the move from monthly to quarterly fund releases.

[16] BoT, 2016.

SECTION 5: DECENTRALIZATION AND SUBNATIONAL SPENDING

The Revolutionary Government of Zanzibar (RGoZ) is organized in three tiers of deconcentrated central government structures below the central level. This includes (i) regional administration (5 regions); (ii) district administration (11 districts); and (iii) shehias or villages (388 shehias). The local governments are elected on a ward basis and consist of districts councils (5), town councils (3) and municipalities (3).[17] The entire subnational system of governance is managed through the Ministry of State (President's Office), Regional Administration, Local Government and Special Departments (PORALGSD) at the central level.

The first steps towards decentralization are just beginning. The MoFP announced the first tentative steps towards decentralization in the FY 2017/18 budget speech. Pre-primary and primary education, basic health services and agricultural extension services are set to be devolved in FY 2017/18. Prior to FY 2017/18, the local government authorities only had control over their own revenues. The national level parent ministries are still responsible for development projects, policy guidance and bulk procurement. In 2017/18, devolved funds will be in the form of grants dedicated to the respective sectors and activities and presented in the budget documents under regional votes. Funds for these functions will be approved by the National Assembly under a single vote for subventions. Future allocations to relevant sectors will be approved at the council-level. More significant devolution is unlikely until after the completion of the Devolution Master Plan, which is currently in at a draft stage.

Decentralization may entail risks of reduced transparency as decentralized agencies such as district councils take on new reporting responsibilities. It is essential to ensure that devolution does not impinge on reporting and transparency efforts. All agencies with newly decentralized functions will require additional guidance and instruction in order to fulfil their reporting responsibilities. Currently five government task forces are looking at possible reforms to facilitate decentralization. The task forces were set up by PORALGSD, and are working in the following areas: policy and legal harmonization, fiscal decentralization, human resource empowerment, awareness-raising and institutional review. The latter will also consider the structure of the ministry responsible for local authorities. Capacity gaps for decentralized institutions will also be identified. Reports from the task forces are expected to be released towards the end of 2017.

Takeaways

- The Government is in the process of devolving a small number of functions. Further devolution can be expected after completion of the devolution master plan.
- Decentralization carries risks of reduced transparency as decentralized agencies such as district councils take on additional reporting and budgeting responsibilities. To mitigate against such risks, all agencies with newly decentralized functions should be provided with guidance and training.

[17] FRA. 2015.

SECTION 6: FINANCING THE NATIONAL BUDGET

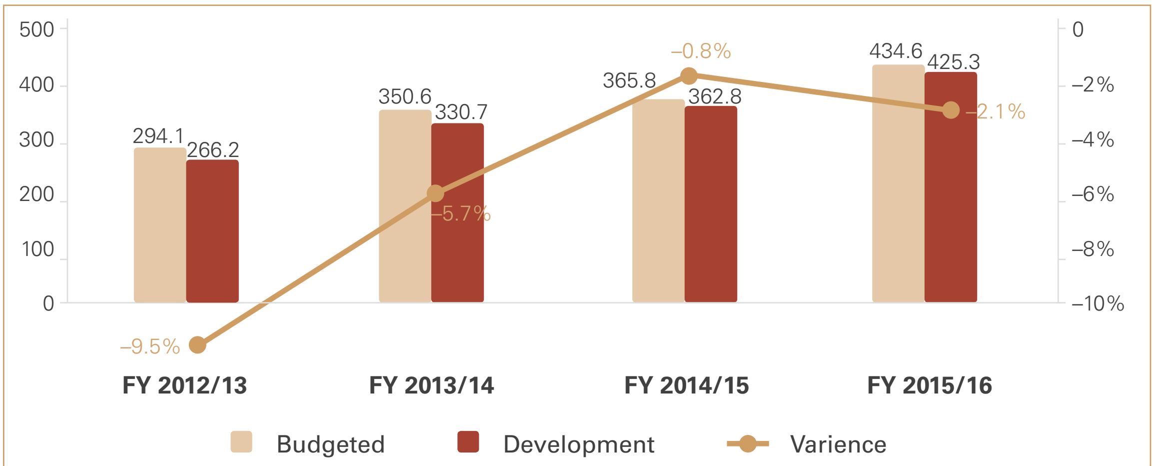
Revenue

Revenue performance, including its projections, has been improving over the years and has significantly reduced the risks of potential budget financing shortfalls. As the blue line in Figure 13 shows, the difference between the revenues expected to be collected and what is collected has narrowed significantly. In FY 2012/13 revenue outturn was 9.5 per cent lower than what was budgeted, with the figure dropping to 2.1 per cent in FY 2015/16.

In terms of tax collections, average annual inflation adjusted domestic revenue has grown by 18 per cent from 2014/15 to 2017/18. Tax revenue to GDP ratio currently stands at 22 per cent from 18.5 per cent in 2010. The positive trend is in line with most African countries that have experienced rising tax-to-GDP ratios since 2000.[18] The increase reflects continuing efforts to mobilize domestic resources, as well as tax reforms and modernization of tax systems and administration.

New revenue measures were announced with the 2017/18 budget which are estimated to contribute additional TSh 11 billion (1 per cent of government revenue) to government coffers. Some of these measures include: compulsory payment of wages to bank accounts (in order to minimize PAYE avoidance), a measure to increase the coverage of stamp duty to small traders and the coverage of financial services under VAT. These measures show that government efforts towards raising domestic revenue is focused on streamlining and enforcing regulations rather than raising tax rates.

Figure 13: Domestic revenue outturns (per cent) and performance in TSh billions



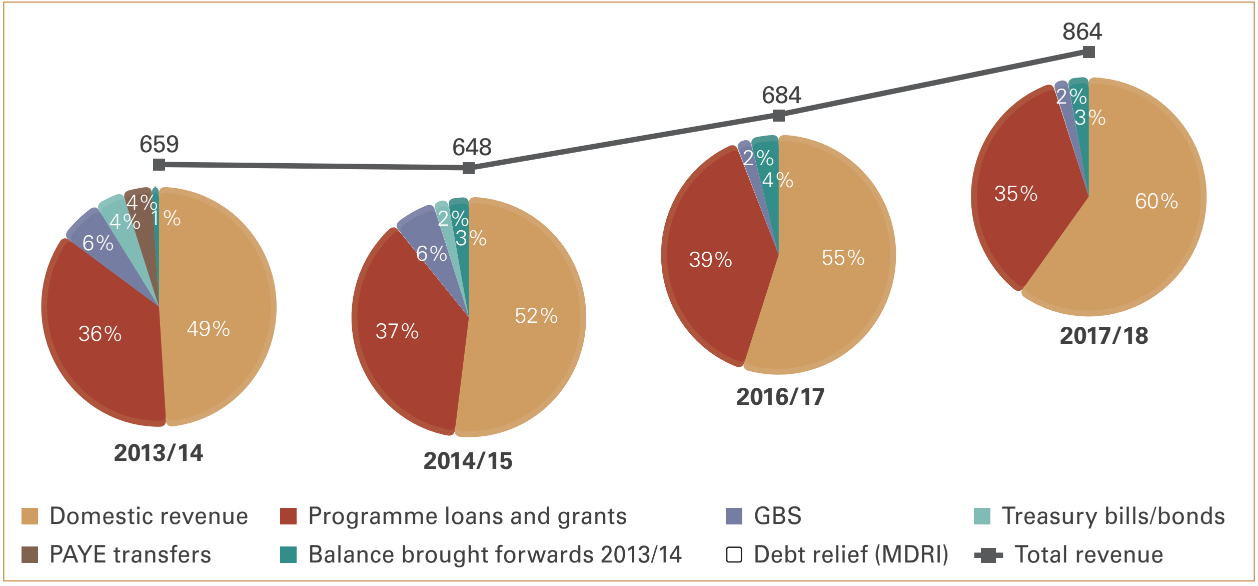
Source: BoT.

Foreign contributions to the budget (programme loans and grants) have declined from 43.1 per cent to 35.1 per cent of the total national budget (*see Figure 14*). This is not due to a reduction in foreign assistance but due to increases in domestic revenue generation. GBS, which once made up 15 per cent of total donor support, is no longer a reliable foreign resource. The RGoZ has decided to remove GBS from revenue forecasts to improve revenue predictability due to the uncertainty pertaining to disbursements. The declining GBS (of which the RGoZ receives 4.5 per cent of the total collected by the union government), shows that

[18] FRA. 2015.

development partners (DP) are increasingly using other aid (e.g., earmarking and project-based modalities).[19] The declining GBS funding points to the growing importance of locally-sourced funds for Zanzibar's development efforts, and the potential role for non-traditional development resources.

Figure 14: Revenue composition (per cent) and total revenue (TSh billion)

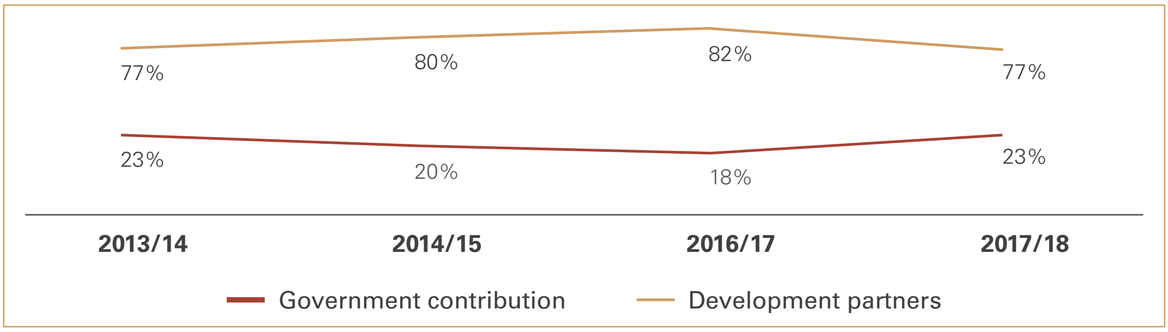


Source: IFMIS.

Donor support

Development spending is still heavily dominated by donor funding, but the Government's contribution has increased in 2017/18, after a declining trend in the preceding years. The majority of development spending is financed by external donors standing at 82 per cent in FY 2016/17 but is estimated to decrease to 77 per cent in FY 2017/18 (*see Figure 15*). During FY 2017/18, the Government intends to contribute TSh 116.1 billion to the development budget, a figure that is nearly twice the amount it contributed in the previous year (TSh 67.0 billion). While increasing government contribution to the development part of the budget is an important step for better planning, greater efforts are needed to capture all DP resources coming to Zanzibar. Reference is made to resources that DPs disburse directly to project accounts, which lead to challenges of complete accounting. It is expected that the second phase of the UNDP supported Aid Management Platform (AMP) at the MoFP will strengthen the MoFP capacity to capture more information on foreign aid coming to Zanzibar.

Figure 15: Contribution to development budget (in per cent)



Source: IFMIS.

[19] Policy Forum, 2012.

Zanzibar has attracted a large number of non-traditional donors. The People's Republic of China and its affiliates, the Export and Import Bank of China (EXIM) and the China Development Bank (CDB) contribute more than 30 per cent to the total development assistance received by Zanzibar (*see Table 2*).[20] China also provides a number of training opportunities within its own territories to Zanzibar's civil servants every year. The Saudi Fund for Development, Arab Bank for Development in Africa (BADEA) and OPEC Fund for International Development (OFID) contribute a combined share of more than 17 per cent of total development assistance.

Table 2: Development partners (TSh billion- FY 2017/18 budget)

	TSh billion	%
European Union	1	0 %
UNFPA/WHO/GF/UNICEF	1.4	0 %
UNDP	1.6	0 %
India	2.1	1 %
International Fund for Agricultural Development	2.7	1 %
Japan International Cooperation Agency	3.8	1 %
SIDA	3.8	1 %
OFID	5	1 %
Norway	5.6	1 %
BADEA	7	2 %
Others	7	2 %
WHO/UNFPA/PMI/GF	12.1	3 %
GPE/SIDA/UNICEF/UNESCO/CHINA	14.4	4 %
China	18.4	5 %
Saudi Fund for Development	23.8	6 %
KOICA	27.5	7 %
WB/OFID/BADEA	28.3	8 %
World Bank	44.7	12 %
Africa Development Bank	71.6	19 %
EXIM BANK	93	25 %
Total	**374.8**	

Source: IFMIS.

Reducing aid dependency has been an enduring goal of the Zanzibar Government. The Government uses external grants captured in the total budget as a measure for this. Coming from a high of 30.2 per cent in FY 2010/11, the Government's aid dependency indicator stood at 12.2 per cent in FY 2015/16. For FY 2016/17 the indicator dropped to 11.1 per cent and is expected to decrease further in FY 2017/18 to 7.3 per cent. Other efforts to reduce dependence include increasing tax revenue (see the subsequent sections), and improving the

[20] The foreign banks provide some grants as part of their big loan portfolios. It is however difficult to separate grants and loans in the aid portfolio as the budget treats grants and loans as the same.

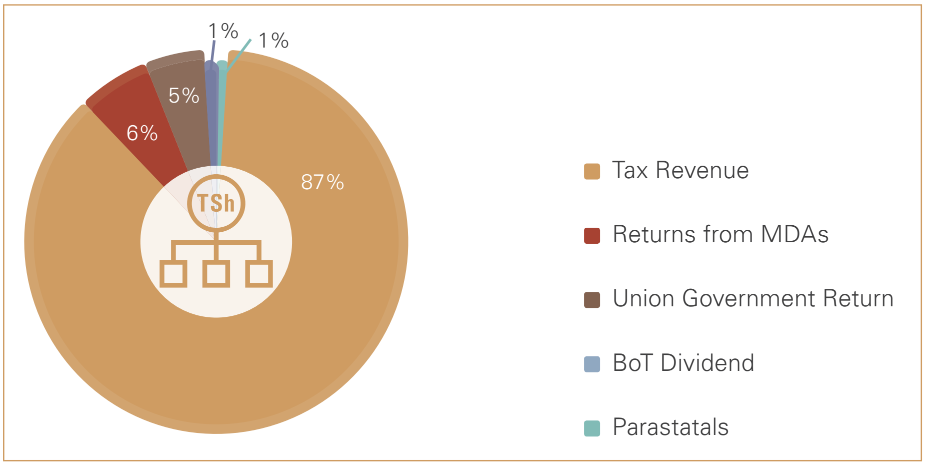
business and investment climate to accelerate economic growth; a measure which should lead to increased revenue generation. Creation of a conducive business environment is among the key outcomes of ZSGRP III.

Opportunities to expand investment in children

Subsidies to parastatals are consuming a large portion of scarce domestic resources. The FY 2017/18 budget included TSh 64.3 billion or 10 per cent of domestic revenues as subsidies to parastatals.[21] The benefits from subsidies to parastatal organizations, such as the state-owned electricity supplier, may accrue to higher income households that consume more while invaluable health and education services for children must compete for the same resources. Central government can enhance its oversight role by fostering regular reporting of the parastatals' financial performance, through the introduction of fiscal analysis and reporting system (FARS). The system has recently been introduced in the mainland.

Underlying reasons for weak performance of parastatals include weak management capacity, absence of good corporate governance, overstaffing of employees and low capacity of governing boards.[22] Reforms are needed in parastatals such as the power supplier, ZECO, to improve operational efficiency, reduce dependence on government resources and improve revenue generation. In FY 2017/18, returns from income-generating MDAs are expected to contribute 6 per cent to national revenues, while parastatals are expected to contribute 1 per cent (*see Figure 16*).[23] Although domestic revenue is growing and exceeding estimates, there is a risk that non-tax performance and reform could be neglected. Tax revenue from July 2016 to March 2017 outperformed estimates at 108 per cent, which is higher than the 94 per cent performance rate for non-tax revenue over the same period.

Figure 16: Sources of government domestic revenue, FY 2017/18



Source: MoFP, 2017/18.

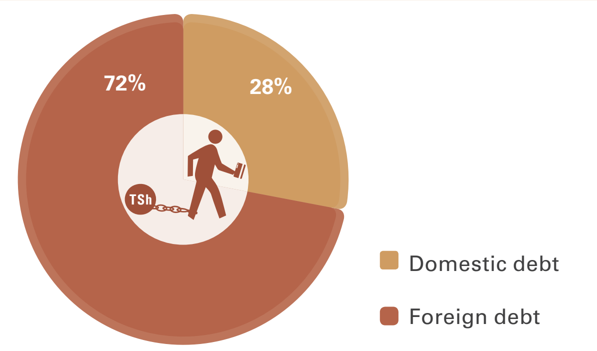
Debt

The Government's debt position is good, standing at 14.3 per cent of GDP as of 2017.[24] This is a better position compared to the Tanzania mainland, where debt stands at 35.4 per cent of GDP[25] and compares well with lower-middle-

[21] The Citizen, Zanzibar's 2017/18 budget focuses on reforms, improving social services, 13 June 2017.
[22] RGoZ, 2003.
[23] Budget speech, 2017/18.
24 Budget speech.
[25] IMF, 2017.

income countries that have an average debt of 41.9 per cent (2013). As of March 2017, the total national debt stood at TSh 377.1 billion, down to 82 per cent of national revenue from a high of 96 per cent in FY 2014/15. About 72 per cent of the national debt stock was foreign and the remaining 28 per cent domestic (*see Figure 17*).

Figure 17: Debt share (foreign and domestic) 2017



Source: MoFP.

Improved domestic revenue performance enabled the Government to improve the county's debt position. High-interest domestic debt was reduced by 21.9 per cent while low interest international debt increased by 1.3 per cent during FY 2013/14. Reducing domestic borrowing also incentivized financial institutions such as banks to provide finance to the private sector. Coupled with the relatively low debt-to-GDP ratio, the improved revenue generation created a good position for the country to borrow, if required, and will increase fiscal space in the medium term.[26]

Takeaways

- Domestic revenue is the most important source of revenue and has been increasing since 2014/15. Average inflation adjusted domestic revenue has grown by 18 per cent from the years 2014/15 to 2017/18.
- Improvements in domestic revenue performance have made it possible to improve budgeting and cash management, and reduce domestic debt.
- Subsidies to state-owned enterprises are a drain on the national budget and do not generate significant returns.
- By using improved revenue collections to reduce high-interest domestic debt, the Government will increase fiscal space in the medium term.
- Development spending remains dominated by donor funding, but the Government has increased its contribution.

[26] Budget speech.

SECTION 7: NEW DEVELOPMENTS IN PFM

The move to PBB from line item budgeting has already yielded improvements in budgeting and documentation. The reform has also been credited with improving budget credibility and transparency. Line ministries enjoy greater control over budgets, which has improved reporting. This will hopefully lead to improved service delivery. Budget transparency could be further improved by introducing functional classification of the national budget. The importance of functional classification will largely support transparency around spending for sectors that will be highly decentralized.

The move to PBB elevates the importance of performance information and requires a harmonized approach to performance reporting in the future. Monitoring and evaluation sections in each line ministry are currently managing the performance information such as the number of teachers trained and the number of farmers reached through agricultural extension workers. Introducing an integrated performance management system could improve the consistency and timeliness of performance reporting.

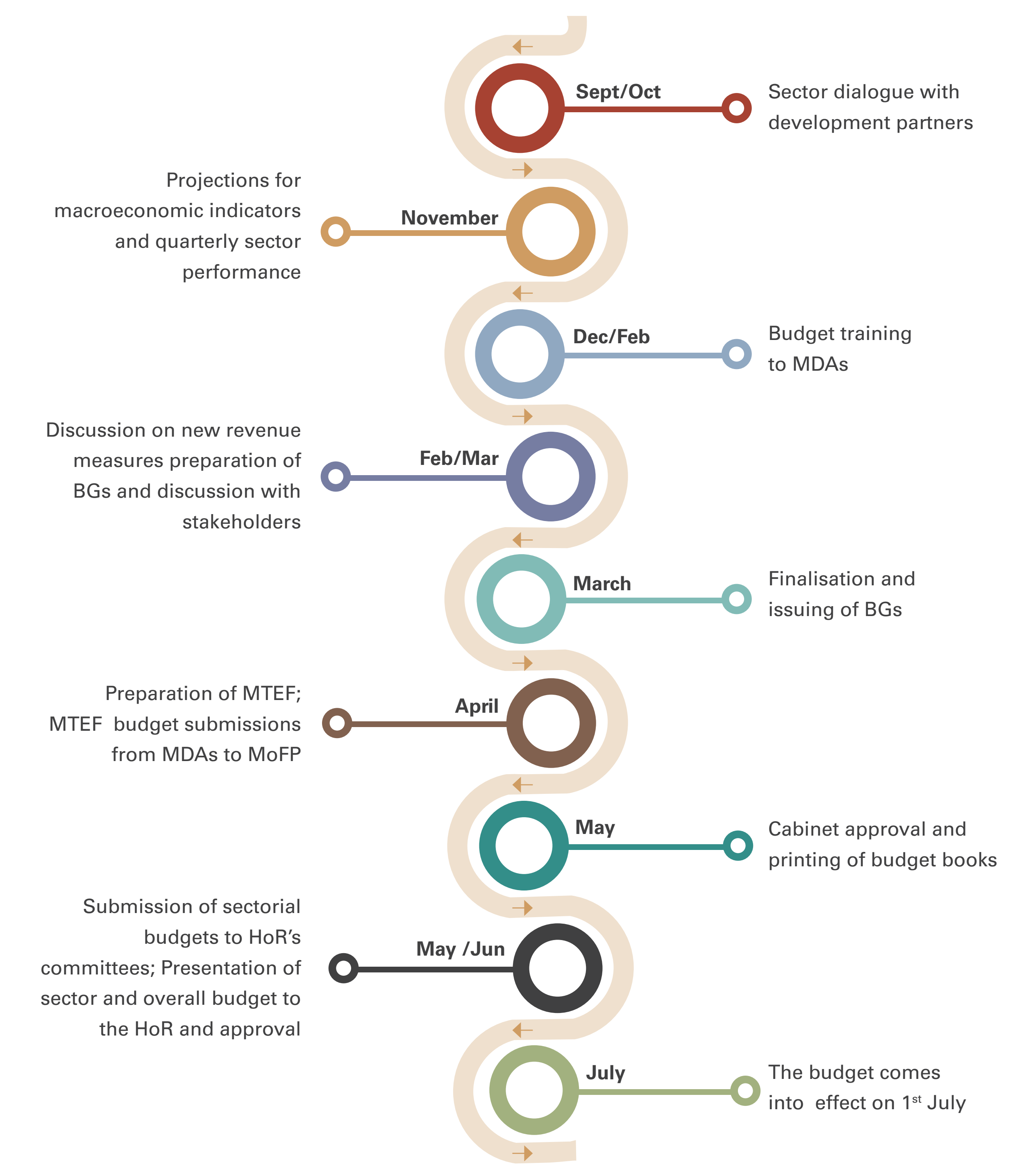
Performance auditing is crucial to improving the quality and integrity of performance information included in the budget. So far, PBB reform has focused mainly on the presentation of the budget. During the Public Finance Management Reform Programme III (PFMRP III), the office of the CAG piloted performance auditing. Reforms will accelerate once a robust and workable Public Financial Management Reform Program for Zanzibar (ZPFMRP) is formally established, which is expected in FY 2017/18. Previously Zanzibar received sporadic support from PFMRP that was based on Tanzania mainland's MoFP.

Complementary to the PBB reform the MoFP is planning on instituting a performance framework for managing human resources. This reform is still at the draft stage but is a positive step towards improving the performance of the civil service and will ultimately contribute to improved service delivery in the social sectors.

The HoR scrutinizes the budget through its various sectoral budget committees, in closed door sessions, and approves the budget in its plenary sessions, which are broadcast live. Figure 18 highlights key events in the budget calendar. There is an encouraging level of transparency. In addition to live broadcast of the budget debates in the HoR, the budget is published when it is approved. Draft estimates are also available to the media when they are tabled in the HoR.[27] Moreover, the annual audit report is a public document when it is tabled in the HoR. Complete budget documentation is only available after the legislature has approved the estimates. In addition, to further enhance transparency, in-year budget execution reports and year-end financial statements could be made public and public expenditure tracking studies (PETS) could be introduced, especially with the ongoing drive to decentralize public expenditure. PETS could also provide an avenue to raise civil society organizations' engagement in enhancing budget accountability.

[27] NORAD, 2010.

Figure 18: Key events in the budget calendar



Source: UNICEF.

Takeaways

- The transition to PBB has yielded impressive returns but the reform is not yet complete. Introducing performance auditing and integrated reporting are key to deepening the reform and realizing improved service delivery for children.
- Introduction of functional classification and enhancing the capacity of the Planning Commission to monitor sector budget performance will further enhance the transparency of the national and sector budgets.

Acronyms

AMP	–	Aid Management Platform
BADEA	–	Arab Bank for Development in Africa
BoT	–	Bank of Tanzania
CAG	–	Controller and Auditor General
CDB	–	China Development Bank
DP	–	development partners
EXIM	–	The Export-Import Bank of China
FARS	–	fiscal analysis and reporting system
FY	–	financial year
GBS	–	general budget support
GDP	–	gross domestic product
HBS	–	household budget survey
HIV	–	human immunodeficiency virus
HoR	–	House of Representatives
IFMIS	–	Integrated Financial Management Information System
KRA	–	key result areas
MDAs	–	ministries, departments and agencies
MoFP	–	Ministry of Finance and Planning
PORALGSD	–	President's Office, Regional Administration, Local Government and Special Departments
NBS	–	National Bureau of Statistics
OCGS	–	Office of the Chief Government Statistician
OFID	–	OPEC Fund for International Development
PBB	–	programme-based budgeting
PER	–	Public Expenditure Review
PETS	–	public expenditure tracking studies
PFMRP	–	Public Finance Management Reform Programme III
RGoZ	–	Revolutionary Government of Zanzibar
SDG	–	Sustainable Development Goals
UNDP	–	United Nations Development Programme
URT	–	United Republic of Tanzania
US$	–	United States dollar
WDI	–	World Development Indicators produced by the World Bank
ZECO	–	Zanzibar Electricity Corporation
ZPFMRP	–	Public Financial Management Reform Program Strategy for Zanzibar
ZSGRP/MKUZA	–	Zanzibar Strategy for Growth and Reduction of Poverty