AID DEPENDENCY IN FINANCING THE SPACE FOR SOCIAL PROVISIONING IN TANZANIA

A MACROECONOMIC PERSPECTIVE

By: Marc Wuyts, Desmond Mushi and Tausi Kida

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ABSTRACT

This paper seeks to analyse, conceptually as well as empirically, the nature of aid dependency in Tanzania, particularly within the light of the Government of Tanzania's stated objective of progressively phasing out aid dependency in the future. In this paper we have argued that, historically, there have been major shifts in the emphases in the nature of aid policies away from aid as direct investment support towards aid as support for poverty reduction leading to greater diversity in the modalities through which aid is channelled. Our analysis focuses on the recent decade that witnessed the change from the National Strategy for Growth and Reduction of Poverty (MKUKUTA) as the dominant macro policy framework to its merger and integration within the Five Years Development Planning (FYDP) with its explicit emphasis on industrialisation and economic transformation to achieve middle-income status in the near future in Tanzania.

Our analysis of aid flow to Tanzania show that donors have become increasingly more reluctant to channel aid through the budget, and, more specifically, in the form of general budget support instead preferring direct project funding form of aid delivery. Also, we show that social provisioning – particularly as defined by allocation of public resources to the social sectors – has effectively become more aid dependent. Also, our analysis further demonstrates that the financing of the health sector in Tanzania has increasingly come to depend on donor funded direct project funding of recurrent expenditures, a significant proportion of which takes place within the confines of vertical programmes. This, we have argued, has important consequences for thinking about policies to phase out aid dependency.

We further argue that an analysis of aid dependency cannot merely focus on the quantitative extent of aid dependency, but must also take into account the changing nature of the modalities through which aid is channelled and delivered. Consequently, we argue that the policy of reducing aid dependency in the future is not just about substituting foreign for local sources of finance, but must inevitably also involve processes of transformation that will of necessity have to involve close collaboration between donors and government, particularly in the case of direct project funding, to preserve, internalise and develop sustainable capabilities in the production and delivery of public goods and services.

1. INTRODUCTION

Aid dependency has been a constant feature of economic development in Tanzania ever since the country became independent from colonial rule. But the extent to which the country was aid dependent and the character of this aid dependency did not remain invariant over time, but changed significantly, and often dramatically, over the various historical phases of Tanzania's social and economic developments. This paper looks at aid dependency in recent years, in particular in the period that witnessed the change from MKUKUTA as the dominant macro policy framework to its merger within the more recent framework of Five Years Development Plans (FYDP), the second of which came on line in 2016.

As this paper will show, a key feature in these recent years has been that aid dependency was and continues to be particularly prevalent in social provisioning – or, more accurately, within the realm of the so-called 'social sectors' (health, education and water provisioning, in particular). This paper investigates both the extent and the character of aid dependency during this period with the explicit aim to draw conclusions about the challenges that need to be confronted to preserve and develop the space of social provisioning in the context of the present-day drive towards industrialization and economic transformation.

It is not the purpose of this paper, therefore, to give a comprehensive historical overview of aid dependency in Tanzania over the various phases of its economic and social developments since independence. However, some sense of the evolution of aid dependency in Tanzania – whence it came, where it went – is nevertheless essential to situate the character of present-day aid dependency within its historical context. It is indeed difficult, if not plainly confusing, to understand the rationale of the various definitions of different aid categories presently employed in the presentation of data on foreign aid in Tanzania as well as why aid is particularly prevalent within social provisioning today, unless these features are understood within their historical context of how they arose and why.

In this paper, therefore, we shall at times make use of brief historical sketches to contrast past practices with present-day forms of organizing aid flows with the explicit aim to understand the macroeconomic importance of foreign aid within Tanzania's economic and social developments today. This, we argue, does not only concern the extent of such aid (as measured for example, by the percentage share of aid in public expenditures), but also its character (the particular modalities through which aid operates). We argue that both these aspects matter to understand how foreign aid operates today and to formulate policies on how to deal with the challenges of its transformation in the future, which also includes the challenge of reducing aid dependency in the future.

The paper is structured as follows. First we deal with some conceptual issues. This section contains theoretical and analytical reflections on and explorations about the changing character of foreign aid. To render this discussion more concrete, however, we shall make frequent use of short examples – brief historical sketches – taken from Tanzania's past experiences with foreign aid. Subsequently, the main body of the paper concerns a more in-depth empirical analysis of the nature of aid dependency in the more recent period – the last decade, in particular, which witnessed the changeover from MKUKUTA to its integration or merger within the present-day

FYDP policy frameworks. The purpose of this section is not just to assess the extent of aid dependency, but also to look at the sectoral distribution of foreign aid (and, more specifically, its importance as a source of finance for social provisioning) as well as its distribution across the various particular modalities through which aid operates. We look furthermore also at how aid flows differ – in volume, in sectoral focus and in range of modalities – across different groups of donor / creditor countries.

This empirical part of the paper will be dealt with first in section 3 with respect to overall (aggregate) aid dependency of the economy and society. Subsequently, section 4 uses the health sector as a case study to give further insights on why not only the volume of aid, but also the modalities of aid matter when looking at the nature of aid dependency.

An important caveat is necessary here. Coming to grips with aid data is highly complicated and can easily lead to confusions and misconceptions, particularly because accounting for aid is an inherently difficult problem given that the aid relations of a country involve, apart from the government, a multitude of partners, each with their own accounting systems and with their own practices of managing aid, some of which are not necessarily visible in the government budget accounts. One of the key problems here concerns the vexing question of disentangling on-budget versus off-budget aid financing.

For this reason, this background paper should be seen as work-in-progress rather than as a finished piece of work. More research is needed, including the more in-depth data collection on detailed data sources. What we aim to do in this paper, however, is to give a preliminary account, based on the data sources available to us, to clarify and disentangle some of the different perspectives on and misconceptions about aid.

The final section of the paper contains the conclusions which draw some lessons from this analysis about the challenges the country is likely to face when dealing with aid dependency – and, more specifically, with the stated objective of phasing out the extent of aid dependency – in the present-day context of preserving the space for social provisioning and human development in the drive towards industrialization and economic transformation.

2. CONCEPTUAL ISSUES

a. Project aid: aid as investment support

Analytically, the initial economic rationale for foreign aid was rooted in the emergence of development economics in the aftermath of the second world war. [1],[2] In this respect, the early development economists argued that the key economic challenge developing economies would have to confront was to effect a successful economic transformation of predominantly agrarian countries through a process of industrialisation and urbanisation to bring about sustained economic growth, which, in turn, would transform agricultural and rural livelihoods in the process. To effect such a massive process of change required a focus on investment and, by implication, on savings. Indeed, the argument was that, while investment is the motor that propels economic growth, it requires the generation of savings within the domestic economy to render it possible. The capacity to generate sufficient savings, therefore, was seen to constitute a *binding constraint* on the rate of capital accumulation.

This is where the analytical (economic) case for foreign aid came into the picture. An influential academic contribution that fuelled policy thinking and analysis at the time was the *two-gap model* developed by Chenery and Bruno (1962). They argued that developing countries, which typically relied on exports of primary produce (agricultural exports crops or minerals), not only had to confront a *savings constraint* but also a *foreign exchange constraint* (if export capacity is insufficient to meet the import needs of a rapidly expanding industrialising economy). Put differently, "the model showed that potential growth of an economy can be limited by either its savings or trade performance, while some mode of macro adjustment must equalize ex post the gaps between investment and savings and between imports and exports" (Taylor, 1991: p. 159).

This point can be illustrated using the following accounting identities that hold, in an open economy, between economic aggregates on the expenditure side of the national income accounts.[3]

GDP = HOUSEHOLD CONSUMPTION + GOVERNMENT CONSUMPTION + INVESTMENT + (EXPORTS – IMPORTS)

Gross domestic savings is then defined as the excess of domestic output over domestic consumption, as follows:

---

1 Foreign aid consists of grants and concessionary loans provided by official aid agencies of individual countries or of multilateral institutions mainly (but not exclusively) to developing countries. Grants concern unilateral transfers and, hence, are part of the current account of the balance of payments of the recipient country. Concessionary loans, in contrast, are part of the capital account, and bring in its wake a flow of interest and debt repayments in the future. The latter, however, are considered as part of foreign aid since they are provided at concessionary terms: for example, at interest rates lower than commercial rates, or at more lenient terms of repayment.

2 Note that, in this paper, we shall not deal with international flows of foreign assistance between non-governmental organisations. The main reason for omitting these flows is not that they are insignificant, but rather that no systematic data are available on international flows of aid between non-governmental organisations.

3 Readers who are unfamiliar with national accounting identities can skip this brief exposition of national account identities without much loss in argumentation.

DOMESTIC SAVINGS = GDP – (HOUSEHOLD CONSUMPTION + GOVERNMENT CONSUMPTION)

Which states that gross domestic savings equals the excess of GDP over consumption expenditures, both private (households) and public (government).

Substituting the latter equation into the former yields the following identity:

INVESTMENT = DOMESTIC SAVINGS + (IMPORTS – EXPORTS)

Which yields the ex post *savings-investment equality* of an economy. To show the connection between the savings and foreign exchange gaps more clearly, however, this ex-post (identity) equation can be rewritten, as follows:

(**INVESTMENT - DOMESTIC SAVINGS) + (IMPORTS – EXPORTS) = 0**

The right hand side of this equation features two separate terms (each between brackets): respectively, the investment-savings gap, on the one hand, and the imports-exports gap, on the other. As the equation shows, both terms cancel each other out since *ex post* their sum must always be equal to zero. In other words, the excess of investment over domestic savings must always be financed by a matching excess of imports over exports. In economic literature, this surplus of imports over exports is often also referred to as (the inflow of) *foreign savings*.[4]

In simpler terms, a country can invest more than its saves (in terms of generating a surplus of GDP over domestic private and public consumption) if, by one or another mechanism, it succeeds in importing more than it exports. Obviously, this surplus of imports over exports needs to be financed one way or another. For example, it could be financed by running down foreign exchange reserves accumulated in the past, or by inviting foreign direct investments into the country, or, alternatively, by obtaining commercial loans (for example, suppliers' credits from foreign companies) to cover the import costs of domestic investments. Another avenue to achieve this same objective, however, is to rely on foreign aid as a means to ease or relax the tightness imposed by the dual savings and foreign exchange constraints on the rate of capital accumulation in a developing economy.

It was this latter argument that provided the initial economic rationale for foreign aid. Indeed, during the 1960s in particular, there was a very optimistic view of aid's role in economic development. Aid would supplement domestic savings, thus allowing for higher investment which – it was argued – would result in higher growth. This latter premise – that higher investment would boast higher growth – was rooted in the Harrod-Domar growth model that was prominent at the time in the development literature (for a more technical explanation, see box 1).

This very optimistic view of aid's role in economic growth remained quite dominant during this period, although, even by the end of the 1960s, there were also some doubts being expressed about aid's effectiveness in boasting economic growth. The most prominent advocate of this aid pessimism was Keith Griffin, who gave these doubts more theoretical backing. Griffin (1970), see also Griffin and Enos (1971), argued that aid would not simply

[4] An exposition of the historical evolution of the savings-investment equality in Tanzania can be found in (Wuyts & Kilama, 2014: pp. 5-19).

supplement domestic savings as had hitherto been expected, but rather replace at least part of it.

In sum, during the Nyerere years, foreign aid predominantly took the form of investment support, which, in practical terms, meant that the modality through which foreign aid was provided to a country took the form of direct project funding. In other words, aid was packaged in the form of investment projects in which the aid agency typically funded the import costs of an investment (for example, equipment and machinery), while the recipient country was expected, by contract, to fund its domestic costs (for example, the costs of the construction of plant or infrastructures, which also included expenses on wages of construction workers). For example, in Tanzania, throughout the 1960s, "development aid (loans and capital grants) made available during this period was entirely limited to project aid" (Bank of Tanzania, 1982: p. 228).[5]

Box 1 Foreign aid in the Harrod-Domar model

The Harrod-Domar model is an equation that relates the rate of growth of GDP (Y) of an economy to the level of investment (I), as follows:

$$g = \frac{1}{k}\ x\ \frac{I}{Y}\ g = \frac{1}{k}\ x\ \frac{I}{Y}$$

Where g is the rate of growth of output, I/Y is the investment ratio, and k is the incremental capital output ratio (ICOR). If we assume capital to be the critical constraint on output, it follows that investment is a necessary and sufficient condition to increase the output (GDP) of the economy.

As shown in our argument earlier on, domestic investment is financed either by domestic savings or by the inflow of foreign savings, which include foreign aid. It is then evident that higher aid will increase investment (and, hence, the investment ratio of the economy), and, hence, increase its growth rate.

For example, if initially there is no aid and the domestic savings ratio is 15%. An ICOR of 3 will translate these savings to a growth rate of 5%. If, however, the country receives aid equivalent to 6% of GDP, the investment ratio will rise from 15 to 21% of GDP, and, hence, the growth rate increases to 7%.

(Source: Mukherjee, White and Wuyts, 1999, p. 210)

However, while foreign aid as project aid aimed to boast investment remained the norm up to the mid 1980s, it ceased to be the exclusive form of aid during the 1970s. Indeed, due to adverse economic circumstances in 1974, characterised by the dual occurrence of a food crisis and the steep rise in the price of oil, additional aid was required, as explained in the following quotation.

5 Doriye and Wuyts (1992: 22-23) showed that, contrary to Griffin's assumption that aid would replace savings, the opposite was true in Tanzania during the Ujamaa period. The reason was that the inflow of project aid boasted domestic savings because project aid would only finance the (foreign exchange) import costs of the investment project, leaving the local partner (government or parastatal) to finance its local costs. In the absence of sufficient government savings (= the excess of government recurrent revenue over its recurrent expenditures), the going practice was to resort to domestic bank borrowing by the government, which explains why there was a positive relation between the inflow of aid and domestic bank borrowing by government. This process fueled domestic inflation of consumer goods, which became the main mechanism to generate forced savings in the economy at large. This might further explain why, as Wuyts and Kilama (2014) have shown, the share of household consumption in GDP declined significantly during the second half of the 1970s.

"In 1974 the uncovered gap (above normal project aid) was put at a critical minimum of sh. 2,400 million in 1974-77. Additional aid of this magnitude was sought to finance both the food grain and oil import induced deficit." (Ibid).

This strategy to enlist *exceptional* additional aid finance (over and above 'normal' project aid) adopted during the 1974-75 crisis and applied during the 1974-77 period "worked well for the period as a whole" (*ibid*: p. 229). In particular, "IMF drawings and the World Bank programme loan covered the 'operation input' side of the payments crisis together with moderately increased food aid" (*ibid*). [6]

Towards the end of the 1970s, however, the second wave of successive oil price hikes squeezed import capacity of *recurrent* imports (oil, intermediate inputs for industry and services, and consumer goods), but it did not squeeze the import costs of imported investment goods since the latter continued to be financed by project aid as well as by suppliers' credits approved by the Bank of Tanzania during the 1979 and 1980-81 period. The resulting severe import compression on recurrent imports meant that "industries were operating well below their rated capacity – about 33 per cent of capacity by mid-1981" (*ibid).*

The implication was that, while capacity creation went on unabatedly, capacity utilisation collapsed as a result of this severe import compression.[7] In response, the Tanzanian government again sought to pursue the same strategy as adopted during the 1974-77 crisis, but this time the aid agencies did not respond (leading to donor fatigue in the provision of aid). Instead, donor agencies exerted pressure on the government for policy reforms, which eventually led to the adoption of the IMF / World Bank inspired structural adjustment programme in 1987.

b. Aid diversification: from aid as investment support to aid as support for poverty reduction

The era of structural adjustment did not only bring about a radical change in economic policies, which started with the adoption of the IMF / World Bank inspired economic reform programme, but it also brought in its wake significant changes in the modalities of foreign aid.[8] It is this latter aspect that we shall deal with in this subsection.

The most distinctive feature of foreign aid in the period since structural adjustment was that the aid modalities *diversified* considerably, and, more specifically, that, besides project aid, programme aid came to play a more significant role in the fabric of foreign aid. Figure 1 gives a brief typology of how different types of programme aid diversified after structural adjustment.[9]

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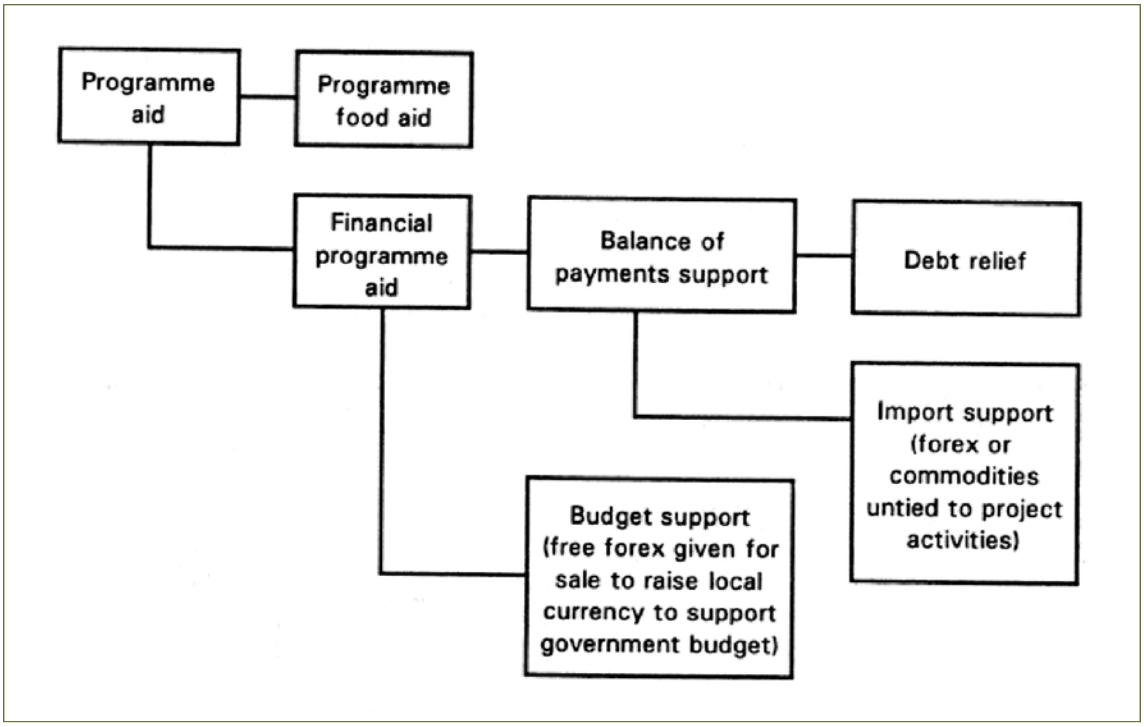
6 Reliance on aid – both project aid and additional aid finance to cover recurrent import needs – was not just a feature of Tanzania's economic development, but also across the developing countries. Storm (2015: p. 685) provides an interesting example of South Korea during its drive towards rapid industrialisation coupled with massive modernization of its agriculture. But even this rapid agricultural modernization alone did not 'solve' its agrarian 'problem'. Rather, as Storm further explains, South Korea bypassed the problem by importing farm products not only by exporting industrial goods in return, but also with the help of US foreign aid. Only this way, Storm argues, could food prices and real wages be kept down, "which (it must be said) allowed industry to have more internationally competitive costs than otherwise".

7 See also (Wangwe,1983) and (Doriye and Wuyts, 1992)

8 See (Wangwe, 2004) for an in-depth discussion of the changing nature of Tanzania's aid relationship and of aid dependency from early independence to the early 2000s. A discussion of the change in economic policy regime towards market-led development, see also Wuyts (2004) and UNCTAD (2000).

9 For a more in-depth analysis of the different forms of programme aid, see Howard White (1998).

Figure 1: Typology of diversification of programme aid after structural adjustment



Source: The figure is taken from White, H. (1998: p. 72)

In Tanzania, after structural adjustment, therefore, foreign aid diversified at first through greater reliance on balance of payments support and import support, and subsequently on budget support. Moreover, in addition, as we shall show, during this period up to the present, project aid itself also diversified away from its prior near exclusive focus on investment support.

Initially, this greater reliance on programme aid essentially reflected the urgent need for *exceptional* finance to relax the foreign exchange constraint on recurrent imports with the explicit purpose to revitalise an ailing economy which had witnessed a veritable 'goods famine' in the early 1980s due to low capacity utilisation in industry and in service provisioning, which, in turn, reduced the availability of so-called 'incentive goods' to stimulate rural trade in cash crops for exports and food crops for domestic marketable consumption. In this initial phase, therefore, programme aid took the form of direct import support (mainly targeted at the importation of recurrent imports of intermediate inputs and spare parts), administered directly by aid agencies in support of the IMF / World Bank inspired economic reforms. Productive enterprises or service providers who benefitted from this form of aid were required to pay for these imports in local currency, the value of which could either be used to support government budget expenditures or be taken out of circulation (sterilised) by the Bank of Tanzania as part of its monetary policies to control inflation. In this initial phase, therefore, immediately after the adoption of structural adjustment policies, the prime focus of this programme aid as a form of exceptional finance was to facilitate access to recurrent imports to kick-start the economy under economic reforms.

As economic recovery took hold and changed into modest growth during the first half of the 1990s, this need for exceptional finance tapered out. Thereafter, however, programme aid did not cease to exist but instead transformed into a more permanent *structural* feature of aid financing. Its aim was no longer to provide exceptional finance to relieve the balance of payments constraint and, hence, its immediate focus was no longer concerned with the provision of direct import support, but rather its focus now turned towards providing budget support as a vehicle for poverty reduction. This process furthermore also went hand in hand with the greater attention aid agencies gave on using programme aid to support social provisioning as an important component of policies aimed at poverty alleviation.

This emerging trend became particularly accentuated towards the end of the 1990s when, under the impulse of the HIPC initiative, attention to social policies became more prominent albeit within a perspective of bifurcation of economic policies confined to economic sectors, on the one hand, and social policies confined to social sectors, on the other (Wuyts & Gray, 2016). Initially, these changes took place within the framework of the IMF-World Bank inspired PRSP (Poverty Reduction Strategy Papers) framework, which subsequently gave rise in 2005 to the formulation of the MKUKUTA policy framework, a more home-grown variant of PRSP which further featured the explicit emphasis on economic growth as a key objective of poverty reduction alongside social policies (THDR 2014: chapter 3).

This trend also went together with a greater drive towards *pooling* programme aid across different donors, of which *general budget support* was the most prominent component besides other more targeted forms of programme aid such as *sector support* and *basket funding*.

- *General budget support* is a form of programme aid characterised by the pooling of aid resources across a group of donors to fund *general* government budget expenditures in addition to domestic sources of government revenue. These funds, therefore, are not earmarked for specific expenditures, nor packaged in the form of projects, but they are tied to macro policy conditionalities agreed upon and monitored by government and the group of donors in question.

- *Sector budget support* is similar to general budget support but targeted towards a specific sector of government expenditures such as, for example, health, education or agriculture.

- *Basket support* concerns pooling of donor aid to provide core funding for earmarked endeavours, which can be located within specific sectors of government expenditures, but also, for example, consist of core funding of research institutions or policy think tanks.

As will be shown in the next section, not all aid donors engage in programme funding, but only a subset of them do so.

In sum, the most distinctive feature of programme aid during this period was its direct linkage with the objective of poverty reduction. In other words, during this period, programme aid came to be seen as a *structural* component of the policy reduction strategies and not just as a temporary means to overcome a balance of payments crisis (as was the case during the 1970s and 1980s). A distinctive feature of these forms of aid is that they are not necessarily linked to development expenditures, but also cover recurrent expenditures, for example, in the provision of social services.

During this period, however, project aid not only continued to exist, but, moreover, as shown later, it has again become more dominant in recent years. In fact, as shown below, some donors only provide project aid and, hence, do not engage in any form of programme aid. It would be wrong, however, to equate all forms of *direct project funding* with investment support during this period. On the contrary, project aid has *de facto* become also more diversified and, besides investment support, now also includes as a significant component the direct funding of recurrent expenditures within the confines of separate donor-organised projects, which, in the context of social provisioning, are also referred to as *vertical programmes*.

In Tanzania, these types of programmes are particularly (but not only) prevalent within the health sector (Mujinja and Kida, 2014).[10] These developments were not just confined to Tanzania, however, but also reflected a broader international trend, as is made clear in the following quotation:

> Since the turn of the Century, the use of the term 'global health' has increased rapidly, reflecting the change in scale and approach of international health action over the past 15 years. Between 2002 and 2011, health-related development assistance tripled, for instance, reaching US$ 18.6 billion, with the share of Africa increasing more than fourfold, from US$ 1.85 to 8.3 billion annually (WHO, 2013: 40-41). This unprecedented surge of funding gave rise to a diverse field of international players with a shared belief in technocratic public health action based on a relatively autonomous body of knowledge: the emerging "discipline" of global health. (Hunsmann, M., 2016: pp. 798-9).

In conclusion, our argument in this section has been that to understand the evolution and the changing character of aid financing in Tanzania, both in terms of its *quantitative* importance and of its *qualitative* forms of organisation, it is important to come to terms of the importance of two parallel but related processes that have shaped the nature of aid dependency in Tanzania today, particularly since the late 1990s:

- The emergence of programme aid as a structural component in financing budget expenditures and,
- The diversification of project aid away from its near *exclusive* focus on investment support towards the inclusion of various more *hybrid* forms of direct project-based funding, which now embraces both investment as well as recurrent public activities and expenditures, the latter of which are particularly prevalent within the confines of the social sectors.

In the period since the late 1990s, therefore, 'normal' (or, more precisely, 'structural') foreign aid no longer came to be exclusively defined as providing investment support to boast economic growth, but rather took on the wider ambit of aid provisioning for supporting poverty reduction (which continued to include economic growth as a key vehicle for poverty reduction).

These two parallel processes, therefore, heralded a shift away from the older notion and practices of aid as investment support towards the newer notion and practices of aid in support of poverty reduction. In what follows, we aim to show that an empirical analysis of the importance of foreign aid in Tanzania, both quantitatively and qualitatively, needs to come to terms with the complexities of these processes of diversification in foreign aid that took place since the era of structural adjustment, and since the late 1990s in particular.

[10] For an in-depth case study of the operation of a vertical programme in the health sector, see Hunsmann, M (2016).

3. AID AS A SOURCE OF FINANCE OF THE PUBLIC SPHERE IN TANZANIA

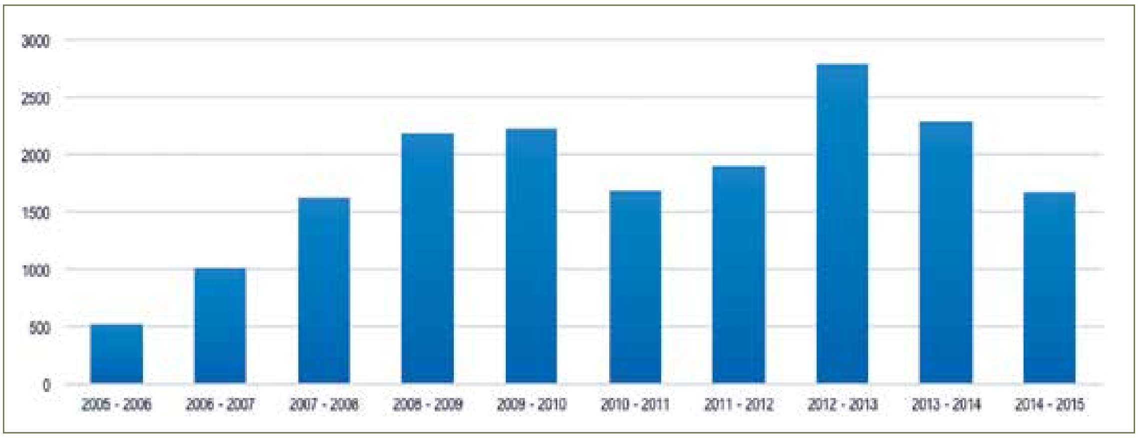
Most of the analysis in this section uses data from the Aid Management Platform (AMP), which contains ODA data that are collected and consolidated by the Ministry of Finance and Planning in collaboration with the Development Partners' Group. This data base contains information on committed as well as actually disbursed aid flows from the fiscal year 2005-06 onwards. In this paper we shall focus exclusively on actual disbursements of aid funding. All data in this data base are expressed in (current) dollar values.[11] In what follows, however, occasionally, for comparative purposes, we shall also present tables or graphs that convert dollar values into Tanzanian shilling values using the average rates of exchange for each of the fiscal years.

The AMP data are routinely entered and updated, which implies a time lag which, taking account the time it takes to make necessary corrections and additions for omissions, can take up to a couple of years before the data are finally consolidated for any particular year. Up to and including the fiscal year 2012-13 the data are consolidated, but available data for the subsequent years (2013/14 and 2014/15) are still subject to some further corrections and updating, and, hence, remain provisional in nature.

a. The evolution of foreign aid and its changing composition across aid modalities

Figure 2 gives a quick overview of the evolution of the total dollar values of disbursed aid flows by fiscal year, ranging from 2005-06 to 2014-15. As indicated above, the last two years are still provisional in nature and, hence, may were still subject to possible further corrections and additions.

Figure 2 Actual disbursements of ODA: 2005-6 to 2014-15 (in million USD)



Source: Data obtained from the Tanzania Aid Management Platform, 2016 (Ministry of Finance and Planning).
Note: Data for 2013/14 and 2014/15 are provisional data.

A distinctive overall feature of this period was that aid witnessed a strong expansion overall notwithstanding the onset of the global 2008 financial crisis and its prolonged aftermath in

[11] During the period covered by the data the inflation rates were very low across most donor countries and, hence, there is little need to express the evolution of these dollar values in real terms in the tables.

subsequent years that deeply impacted on the world economy. As figure 2 shows, however, the evolution of foreign aid was not steady. At first, from 2005-06 to 2009-10, foreign aid rose very steeply – in fact, from 2005-06 to 2009-10, ODA aid more than *quadrupled* in dollar terms– which indicates that the MKUKUTA policy framework structured around the objective of poverty reduction was particularly successful in mobilizing aid funding. In the subsequent years, the pattern levelled off but became more erratic, falling back during the 2010/11 and 2011/2012 fiscal years, after which aid inflows rose steeply to an exceptionally high peak in the 2012/13 fiscal year. The *provisional* data for the two subsequent years, however, suggest that foreign aid then fell back somewhat, while still remaining well in excess of its 2005-06 level – by 2014-15, total ODA aid still was more than *triple* its level in 2005-06.

Table 1 breaks down the actual disbursements of overseas development aid (ODA) across four aid modalities – basket funding (BF), Donor Project Funding (DPF), General Budget Support (GBS), and Sector Budget Support (SBS) – for selected years over the period 2005-06 to 2012-13 (the last year for which the data are complete).

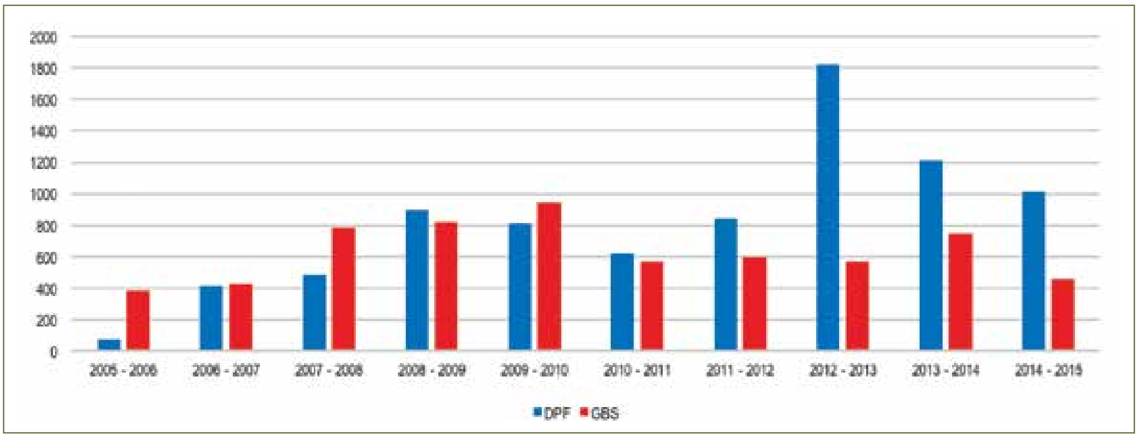
Table 1: Actual Disbursements of ODA by Aid Modalities (Millions of USD) 2005/6 to 2012/13 (selected years)

	2005 - 2006		2006 - 2007		2009 - 2010		2010 - 2011		2012 - 2013	
BF	62.67	12%	164.21	16%	403.66	18%	408.98	24%	296.35	11%
DPF	76.36	15%	418.22	41%	811.70	36%	619.42	37%	1,823.60	65%
GBS	385.01	73%	427.27	42%	945.13	42%	573.43	34%	569.45	20%
SBS	0.00	0%	1.23	0%	64.79	3%	81.93	5%	97.30	3%
Total	**524.00**	**100%**	**1,010.94**	**100%**	**2,225.28**	**100%**	**1,683.76**	**100%**	**2,786.70**	**100%**

Source: Data obtained from the Tanzania Aid Management Platform, 2016 (Ministry of Finance and Planning).

Table 1 shows that direct project funding and general budget support together accounted for the bulk of the ODA disbursements during this period. However, the relative weight of each of these two major modalities of aid changed significantly over the period as a whole: more specifically, donor interests clearly shifted towards the greater use of direct project funding and lesser reliance on general budget support, as shown in Figure 3.

Figure 3: Actual ODA disbursements of General Budget Support versus Direct Project Funding: 2005-6 to 2014-15 (in million USD)



Source: Data obtained from the Tanzania Aid Management Platform, 2016 (Ministry of Finance and Planning).

Figure 3 shows that, initially, both GBS and DPF increased markedly up to fiscal year 2009/10, after which DPF remained high (with an exceptional peak in 2012/13), while GBS went into decline. In the fiscal year 2014-15, using the provisional data, DPF constituted about 59% of total ODA, while GBS accounted for nearly 28%. In other words, in later years, donors were increasingly channelling aid flows through projects rather than through the GBS (which was the preferred aid modality of the Tanzanian government, particularly during the MKUKUTA years.

This switch in the relative weights between GBS to DPF is due to the combined impact of two sets of changes:

- First, it reflects that those donor agencies that favoured GBS switch their preference towards DFP, thus reducing their reliance on GBS.
- Second, it further reflects that those donor agencies that do not provide programme aid (including GBS) have grown in number and in importance.

In total, the Tanzania Aid Management Platform provides data on ODA from 48 different agencies. Table 2 shows the cross tabulations across donor agencies of two variables: (1) whether or not a donor agency provides GBS (along with other aid modalities), and (2) whether or not it only provides DPF exclusively.

Table 2: Provision of GBS versus DPF only by donor agency

GBS	Exclusively DPF		Row Totals
	No	Yes	
No	*5*	*28*	**33**
Yes	*15*	*0*	**15**
Column totals	**20**	**28**	**48**

Source: Tanzania Aid Management Platform, 2016 (Ministry of Finance and Planning).

Table 2 shows, therefore, that during this period only an (important) minority of donor agencies engaged in the provision of GBS: among others, the World Bank, DIFID (UK), the Nordic countries, the European Union, Ireland, Switzerland, Canada, and, until recently, the Netherlands. As mentioned above, these donors also provided other forms of aid, including DPF.

In contrast, a majority of donor agencies – 28 in total – *exclusively* specialise in DPF, the most prominent of which are the USA (various agencies), the different UN institutions, China, JICA (Japan), Korea, and, importantly, the Global Fund for HIV, TB and Malaria.

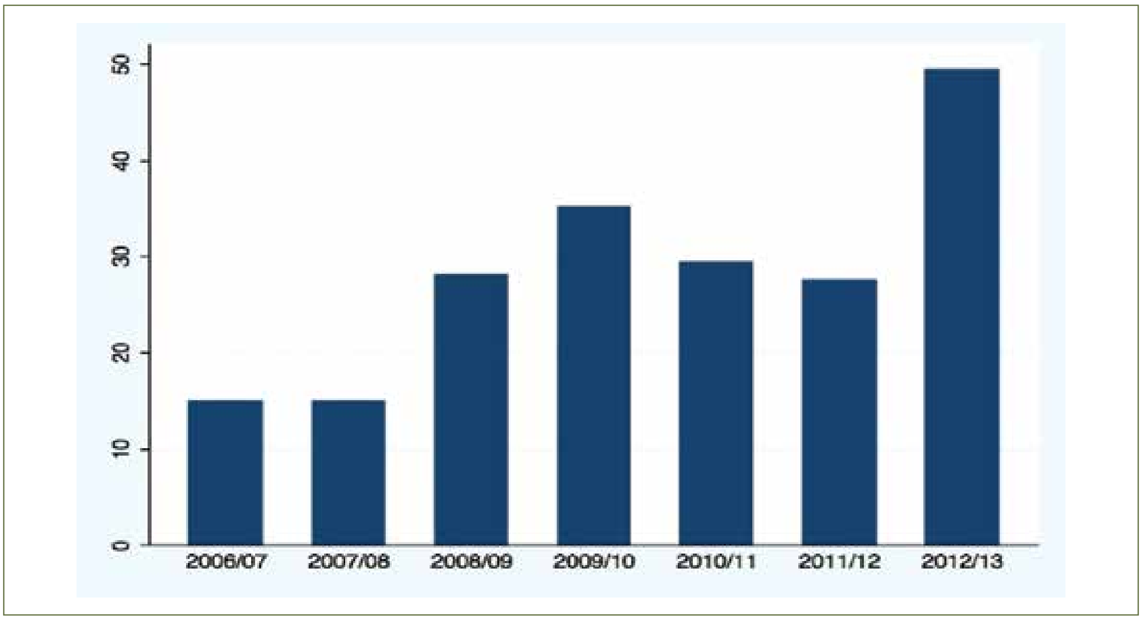
To conclude, in this subsection we have shown that the volume of aid expanded considerably during the last decade. We further showed that the balance between different aid modalities shifted significantly over this period: the share of GBS in total ODA declined significantly (from 42% in 2006-07 down to 20% in 2012-13), while the share of DPF rose markedly (from 42% in 2006-07 to 65% in 2012-14).

b. The increased importance of 'social sectors' in ODA disbursements

An important dimension of the longer term shift away from aid as investment support towards aid as support for poverty reduction has been that ODA support to social sectors became more prominent, particularly under the impulse of the MKUKUTA policy framework. The data of the Tanzania Aid Management Platform allow us to take a closer look at this since it also provides information on the sectors, including the social sectors, targeted by ODA funding.

A caveat is necessary here. GBS *pools* resources with the Tanzanian budget and, hence, the distribution of this aid modality across expenditure categories is the same as that of overall government budget expenditures. In other words, by its nature, GBS does not involve any earmarking by donors on how aid is distributed across sectors. The data for the Aid Management Platform, however, allow us to investigate the sector distribution of aid disbursed through the other aid modalities (BF, DPF, and SBS). Figure 4 shows the percentage share of aid in total disbursements of ODA funding, *excluding GBS*, for health, education, and water provisioning.

Figure 4: Social sector aid as % of total (non-GBS) ODA



Source: Tanzania Aid Management Platform, 2016 (Ministry of Finance and Planning).
Note: Major social sectors only: health, education and water provisioning

Note, however, that the calculation of these percentages only yield a lower estimate of the importance of ODA funding for social sectors since:

(1) They do not include the share of GBS devoted to social expenditures.

(2) And, they are only confined to these three sectors and, hence, omit other areas of social expenditures like, for example, ODA funding of the Social Action Programme.

Figure 4 clearly shows, therefore, that aid as social sector support became more prominent under the impulse of the MKUKUTA framework. The percentage doubled over the period under review, reaching an (exceptional) peak in the fiscal year 2013/13 as did overall ODA disbursements for this year.

c. Foreign aid and the government budget

This section presents an initial investigation into the extent to which the public sphere in Tanzania depends on foreign aid to finance public expenditures. We shall do so by triangulating the actual disbursements of foreign aid as given by the ODA data with the data on actual government budget expenditures and revenues in Tanzania, as reported in the Economic Surveys of the ministry of finance and planning and in the Quarterly Economic Bulletins (Bank of Tanzania).

Table 3 gives an overview of the trends in government revenue and expenditures – both recurrent and development – as listed in the Tanzania Economic Surveys covering the fiscal years 2006-07 to 2013-14.

Table 3: Trends in government finances 2006-07 to 2012-13 (in millions of Tshs)

FISCAL YEAR	FY 2006 - 2007	FY 2007 - 2008	FY 2008 - 2009	FY 2009 - 2010	FY 2010 - 2011	FY 2011 - 2012	FY 2012 - 2013	FY 013 - 14
1 DOMESTIC REVENUE	2,739,022	3,634,581	4,293,075	4,661,540	5,577,986	7,025,884	8,442,611	10,182,455
2 TOTAL EXPENDITURE	4,474,680	5,208,996	6,811,827	8,173,749	9,439,407	10,764,528	13,543,018	13,958,162
2.1 Recurrent Expenditure	3,137,469	3,398,024	4,681,459	5,562,443	6,690,370	6,989,807	9,043,323	10,032,120
2.2 Development Expenditure	1,337,211	1,810,972	2,130,368	2,611,306	2,749,037	3,774,722	4,499,695	3,926,042
3 BUDGET DEFICIT (1-2)	-1,735,658	-1,574,415	-2,518,752	-3,512,209	-3,861,421	-3,738,644	-5,100,407	-3,775,707
4- FINANCING OF DEFICIT (= -3)	1,735,658	1,574,415	2,518,752	3,512,209	3,861,421	3,738,644	5,100,407	3,775,707
of which, External Sources	1,689,337	2,302,805	2,201,485	2,784,944	2,776,309	3,590,357	3,942,498	3,858,785
Memorandum:								
Domestic revenue as % of Total Expenditures	61.2	69.8	63.0	57.0	59.1	65.3	62.3	72.9
Budget deficit as % of Total Expenditures	38.8	30.2	37.0	43.0	40.9	34.7	37.7	27.1
External sources as % of total Expenditures	37.8	44.2	32.3	34.1	29.4	33.4	29.1	27.6

Source: Tanzania Economic Survey 2012 and Hali Ya Uchumi 2014

The table shows that external sources constituted the main component in the financing of the budget deficit – the difference between total government expenditures and domestic revenues – over this period. Over this period, in relative terms, the budget deficit declined as a share of total government expenditures: from nearly 39% down to 27%. As the table shows, the main financing item derived from external sources.

These data, however, do not allow us to assess which part of the external sources consist of foreign aid, nor do they show how this aid divided up into grants and concessionary loans. The statistical tables of the Quarterly Economic Bulletins of the Bank of Tanzania, however, allow us to take a closer look at the relative importance of (on-budget) actual totals of foreign aid.

Table 4 gives an overview of government finances covering the period of 2010-11 to 2014-15.[12]

[12] The statistical tables of the overviews of government finance before the fiscal year of 2010-11 were not included here because they do not provide the same amount of detailed categorization than used in the later years.

Table 4: Trends in government finances 2010-11 to 2014-15 (in millions of Tshs)

FISCAL YEAR	2010-11	2011-12	2012-13	2013-14	2014-15
TOTAL REVENUE	5,736,266	7,221,409	8,442,611	10,182,455	10,957,765
TOTAL EXPENDITURES	9,439,407	10,764,528	12,714,236	13,958,162	14,603,714
Recurrent expenditure	6,690,370	6,989,807	9,043,323	10,032,120	10,893,486
Interest payments	353,377	436,317	766,748	977,082	1,261,002
Domestic	285,481	345,126	589,595	742,728	917,033
Foreign	67,896	91,191	177,153	234,354	343,970
Wages and salaries	2,346,378	3,177,091	3,868,714	4,537,816	5,255,359
Other goods, services and transfers	3,990,615	3,376,399	4,517,222	4,292,979	4,377,125
Development Expenditure and net lending	2,749,037	3,774,722	3,670,914	3,926,042	3,710,228
Local	984,555	1,872,312	2,314,718	2,121,212	2,264,506
Foreign	1,764,482	1,902,410	1,356,196	1,804,831	1,445,722
BALANCE (cheques issued) BEFORE GRANTS	-3,703,141	-3,543,120	-4,271,625	-3,775,707	-3,645,949
GRANTS	1,627,425	1,855,097	1,378,718	1,587,649	1,024,133
Of which: Project grants	565,797	833,632	345,215	670,912	514,184
BALANCE (cheques issued) AFTER GRANTS	-2,075,716	-1,688,023	-2,892,907	-2,188,059	-2,621,816
OVERALL BALANCE (cheques cleared)	-2,393,215	-2,070,124	-2,804,319	-2,497,879	-2,806,518
FINANCING (OF DEFICIT)	2,393,215	2,070,124	2,804,319	2,497,879	2,806,518
Foreign Financing	1,148,885	1,735,260	1,734,998	2,271,137	2,006,742
Loans	1,191,830	1,815,758	1,861,661	2,452,357	2,233,409
Program loans	173,806	246,850	357,481	526,157	374,704
Development Project loans	797,343	1,396,696	1,317,844	1,718,535	1,695,528
o/w: Non-Concessional Borrowing	153,948	801,282	1,063,006	1,194,516	1,054,803
Basket Support	220,681	172,212	186,336	207,665	163,177
Amortization	-42,946	-80,497	-126,663	-181,220	-226,667
Domestic financing	1,244,331	334,864	1,069,321	226,742	799,776

Source: Bank of Tanzania Quarterly Economic Bulletins 2011 to 2016.

It should be noted that, in table 4, grants are added to domestic revenue to arrive at the overall balance (which is the government deficit). The reason is that, from an accounting perspective, grants are unilateral transfers and, hence, should not be included among the financing items of the government deficit. In contrast, table 3 included grants as financing under the category of external resources.

As table 4 shows, in the 2010-11 to 2014-15 period, the grant component of foreign aid declined quite markedly: from 1.85 trillion shillings in 2011-12 down to about a trillion shillings in 2014-15, a decline of 45%. In 2011-12, total receipts from government revenue and from grants amounted to about 9 trillion shillings, of which grants accounted for 20%. By 2014-15, total receipts from government revenue and grants were about 12 trillion shillings, of which grants accounted for 9.3%. Interestingly, however, project grants did not decline as much, and, hence, most of the decline in grants mainly concerned various forms of grants for programme aid.

As table 4 further shows, foreign financing rose by 75% over the period 2010-11 to 2014-15. But not all of this is foreign aid. More specifically, the share of non-concessionary borrowing for development project loans as percentage of total foreign financing rose very steeply over this period: from 13.4% in 2010-11 to 52.5% in 2014-15.[13]

From the perspective of government finance, therefore, the decrease in (on-budget) aid dependency appears to be essential due to two separate trends at work:

- First, the narrowing of the gap between domestic revenues and total government expenditures: more specifically, from 2013-14 onwards, domestic revenues came to exceed recurrent expenditures.

- Second, in relative terms, the foreign financing of the government deficit shifted away from concessionary aid-related financing towards non-concessionary borrowing, particularly with respect to development project loans.

This trend towards balancing recurrent expenditures with recurrent revenues, and even towards creating a surplus of revenues over recurrent expenditures, can be rightly seen as a welcome development in government finances. But it also raises some issues that are particularly important in matters concerning social provisioning. Indeed, as shown in table 4, while recurrent expenditures rose significantly (but obviously less that government revenue) over this period, its composition over spending items also changed significantly. More specifically,

- First, the share of interest payments rose from 5.3% in 2010-11 to 11.6% in 2014-15 of total recurrent expenditures.

- Second, the share of payments of wages and salaries rose from 35% to 48% of total recurrent expenditures.

- But, finally, in contrast, the share of expenditures on other goods, services and transfers declined from nearly 60% down to 40% of total recurrent expenditures. In fact, the *nominal* values in Tanzanian shillings of this category of expenditures remained rather stagnant during this period, reaching a peak in 2012-13, after which they declined. In the area of social provisioning, however, this latter category plays a key role in rendering services affordable, particularly for the poor.

To sum up, over this period, from the perspective of government finances, total grants fell significantly, while, on the financing side, the share of non-concessionary loans rose steeply as a component of foreign financing, both of which imply that the government budget became much less dependent on foreign aid.

But these trends do not as yet tell the whole story about the extent of aid dependency in the broader public sphere. Indeed, one of the key problems concerns the vexing question of disentangling *on-budget* versus *off-budget* aid financing. Here is an as yet *tentative* explanation of why this appears to be such a difficult question, but more research is definitely needed to arrive at a better understanding.

- First, the procedures concerning *on-budget* financing essentially involve two sets of recorded data: the *a priori* commitments made by donor agencies (across the different modalities) in advance of each fiscal year and the *ex-post* accounting of actual disbursements based on

13 Unfortunately, the published data as reported in the Quarterly Economic Bulletins does not specify whether the financing item of Loans (as distinct from Development project loans) also includes non-concessionary loans. This requires further research.

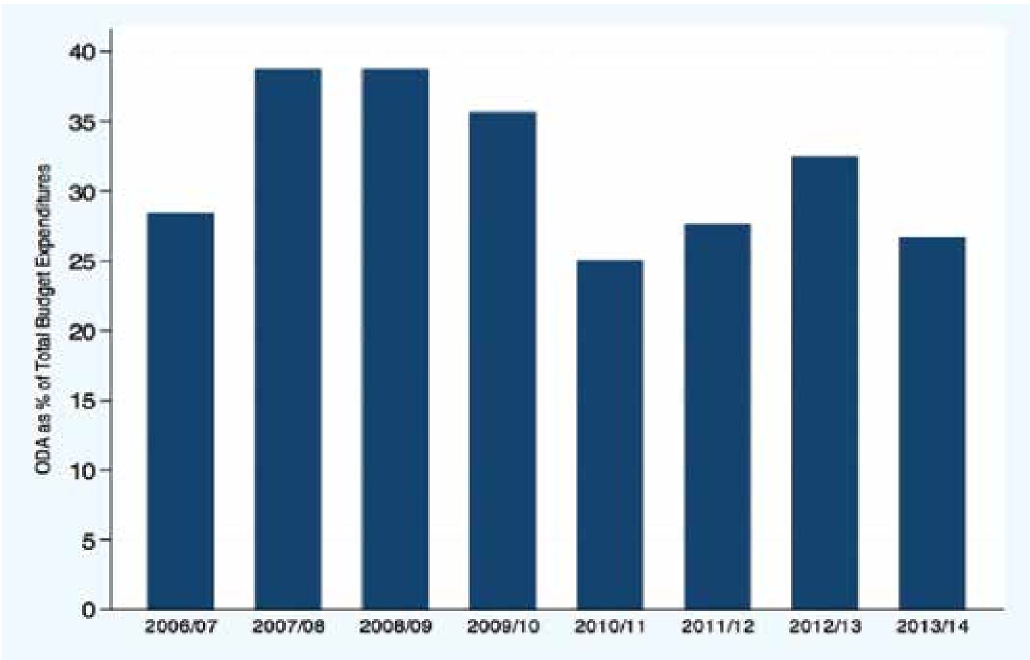
these commitments. The two do not necessarily match as is often voiced in government concerns about the reliability of aid as a source of financing.

- But at or after the closing of a fiscal year donor agencies also report on the *ex-ante* (after the completion of the fiscal year) direct disbursements of aid they made in addition to the on-budget recorded flows. Some of these moneys may not even enter the country, but are provided in kind, like, for example, expenses directly made by donor agencies on technical assistance or on scholarships abroad. Other such aid flows may enter the country, but not necessarily via the government budget. For example, some aid funding is given directly to international NGOs, which then provide services within the country, a system which is prevalent, for example, in health care provisioning through vertical programmes.

The Aid Management Platform (AMP) records all *ex ante* actual disbursements as reported by aid agencies.[14] To take a closer look at the relative importance of ODA funding in financing the public sphere in Tanzania we converted the dollar values of the data provided by the Aid Management Platform (AMP) into Tanzanian shilling values using the average rates of exchange for each of the fiscal years. Using the AMP data further allows us to look not only at the relative importance of the total volume of aid as compared to the level of government expenditures and revenues, but also at the relatively importance therein across different modalities of aid.

To start with, figure 5 shows the evolution of ODA as percentage share of total government expenditures over the fiscal years 2006-07 to 2013-14.

Figure 5: ODA as % of Total Government Expenditures



Sources: Tanzania Aid Management Platform, 2016 (Ministry of Finance and Planning); Tanzania Economic Survey 2012 and Hali Ya Uchumi 2014

Note: ODA amounts were converted from USD to TSHS using average exchange rates for fiscal years.

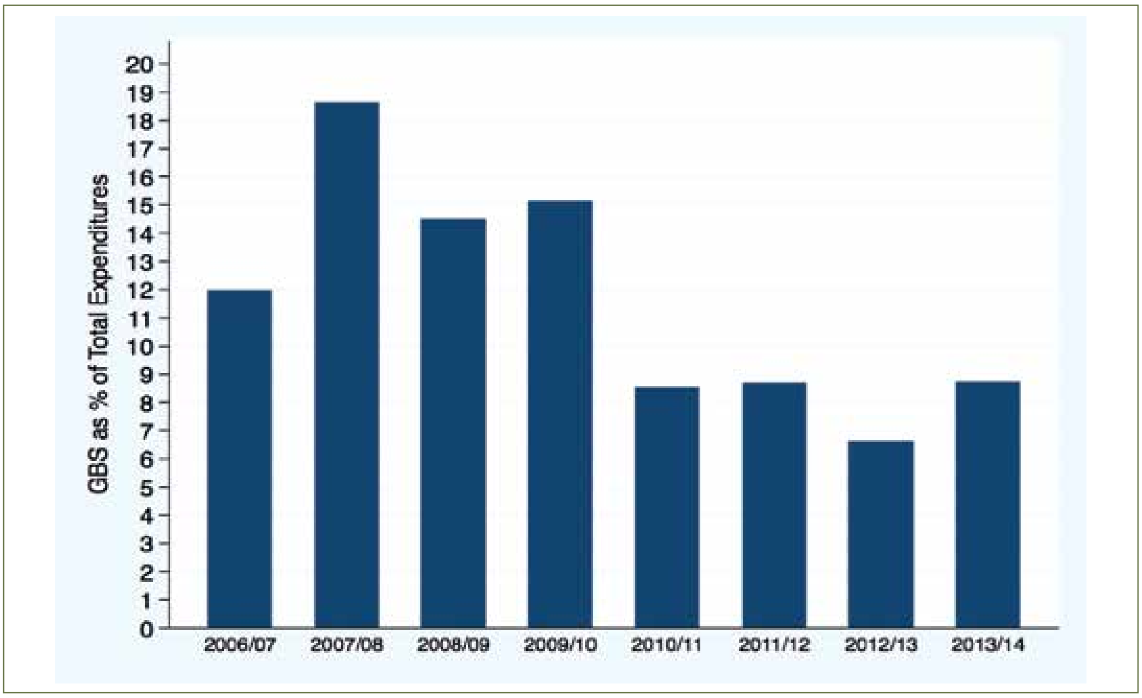
14 It is likely, however, that its reporting on commitments only includes committed funding prior to the fiscal cycle, which renders it difficult to compare commitments with disbursements. This is the reason why we preferred not to include an analysis of commitments versus disbursements in this paper, given the difficulties in dealing with the direct funding that is only reported ex post.

What the figure shows is that, in recent years, the importance of ODA relatively to total government expenditures declined in comparison with the higher levels that prevailed in the 2007-08 to 2009-10 fiscal years: from fluctuations within the 35% to 40% down to (mostly) within the 25% to 30% range.

Note, however, that this decline in the importance of foreign aid *relatively to total government expenditures* does not necessarily reflect a similar reduction in ODA aid in terms of total disbursed dollar values. Indeed, as figure 2 showed, total disbursements of ODA did not reveal any clear downward trend over the period from the 2010/11 fiscal year onwards. The changes in the relative importance of foreign aid, therefore, reflect the combined effects of changes in the nominal exchange rate of the dollar against the shilling as well as of the growth in total nominal government expenditures. It is this latter component that mattered most because, during this period, the exchange rate of the shilling depreciated significantly relatively to the dollar, which had the effect of increasing the weight of ODA relatively to domestic aggregates when both are expressed in local currency.[15]

The patterns in fluctuations in the relative importance of foreign aid, however, become more accentuated once we disaggregate aid by different aid modalities. Here we shall look more specifically at changes in the relative importance of general budget support, on the one hand, and donor project funding, on the other, both converted to their corresponding values in Tanzanian shillings and expressed relatively to total government expenditures. Figure 6 depicts the trend for general budget support as percentage of total government expenditures.

Figure 6: GBS as % of Total Government Expenditures: 2006-07 to 2013-14.



Sources: Tanzania Aid Management Platform, 2016 (Ministry of Finance and Planning); Tanzania Economic Survey 2012 and Hali Ya Uchumi 2014

Note: GBS amounts were converted from USD to TSHS using average exchange rates for fiscal years.

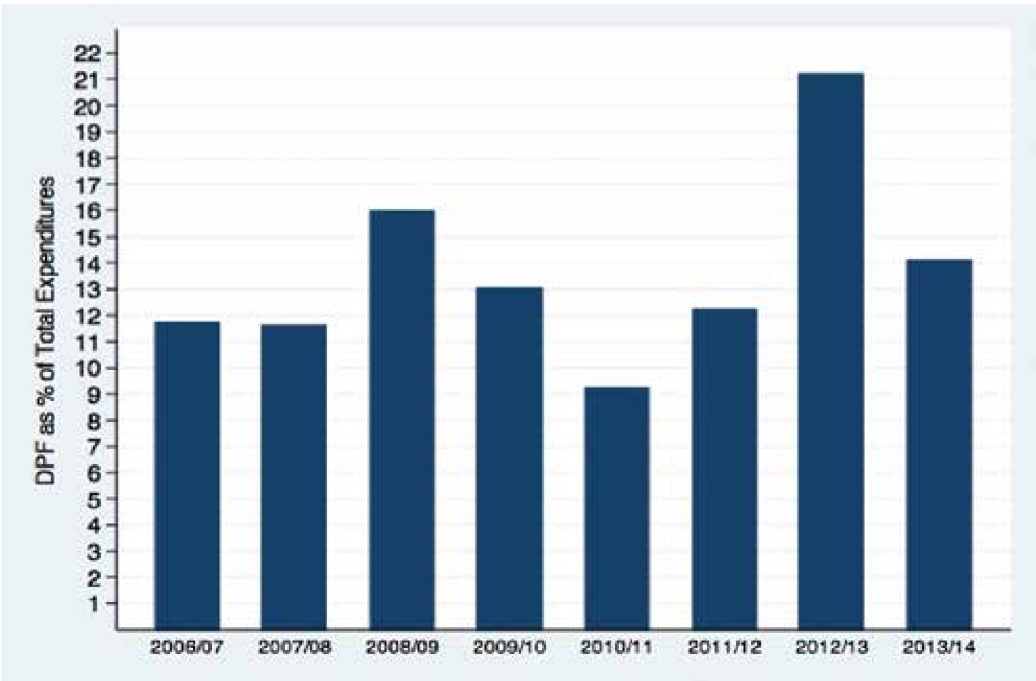
15 Note, however, that the rate of depreciation of the nominal exchange rate did not match the differential between the rates of inflation prevalent within the main major donor countries (which were generally very low due to the global financial crisis of 2008 and its aftermath) and the domestic rate of inflation in Tanzania, which indicates that the real exchange rate must have appreciated during this period.

As figure 6 shows, the relative importance of GBS as a source of financing government expenditures declined significantly, from as high as 18.6% 2007-08 down to 6.6% in 2012-13: a drop of nearly one-third of its prior peak level. What this shows is that donors became considerably more reluctant to pool aid funding to support general budget expenditures.

It is this drop in the relative importance of GBS in funding government expenditures that has increasingly attracted attention in the press and among the public in recent years. For example, in May 2012, when donors announced their General Budget Support (GBS) and other aid commitments for the 2012/13 budget, there were newspaper headlines along the lines of "Donors decreasing budget support to Tanzania". This steep decline in the relative importance of GBS was seen as particularly alarming, none the least because, among the public and the media, there appears to be a commonly held view that beforehand general budget support constituted as much as 40% of budget expenditures. As figure 6 indicates, however, this is incorrect. One reason for this common misconception could be that the downward trend in the relative importance of GBS in total government expenditures is often confused with or mistaken for the trend in overall ODA aid relatively to total government expenditures. Comparing figures 5 and 6, however, show that, *relatively to total government expenditures*, both trends indeed declined in the latter years, but the former (GBS) did so much more steeply than the latter (ODA).

This becomes particularly clear when we look at the evolution of the project funding relatively to total government expenditures, as shown in figure 7.

Figure 7: DPF as % of Total Government Expenditures: 2006-07 to 2013-14.



Sources: Tanzania Aid Management Platform, 2016 (Ministry of Finance and Planning); Tanzania Economic Survey 2012 and Hali Ya Uchumi 2014

Note: DPF amounts were converted from USD to TSHS using average exchange rates for fiscal years.

Figure 7 shows that DPF relatively to total government expenditures did not decline, but instead rose slightly in the latter years.

In sum, what the data show, therefore, is that donors increasingly prefer to channel their assistance through projects rather than through general budget support (the preferred aid modality by the Government of Tanzania).

The need to disaggregate aid flows across modalities, however, is not just important in terms avoiding confusion in terms of assessing the *quantitative* importance of foreign aid and of its distribution across these four modalities, but also because of the *qualitative* differences in the ways in which the systems through which aid is managed and organised differ markedly between these different modalities of aid.

For example, general budget support provides pooled funding of aid that then become available, alongside domestic revenues, to fund general government expenditure programmes. The provision of general budget support is subject to policy conditionality, but, once released, their allocation is managed and controlled through the existing government allocation mechanisms and systems of delivery of public services, both for recurrent and for development purposes.

Basket funding and sector budget support are more restricted in their scope because they consist of earmarked funding linked to a particular sector or purpose. Once disbursed, however, they become part of the budget resources within these earmarked areas of public expenditures.

Donor project funding, however, is quite different in its operation inasmuch as the expenditures they fund are generally channelled within the confines of specific donor-managed projects, which in recent years do not only concern investment support, but also the funding and management of recurrent expenditures of public services, some of which run parallel to the existing systems of delivery of government services. This poses more complex challenges in terms of securing sustainability of such activities, not just in financial terms, but also in terms of preserving productive capabilities encapsulated within the confines of project aid, particularly in the light of the stated objective of reducing aid dependency. The next section seeks to illustrate and clarify this point in more detail, both quantitatively and qualitatively, using aid financing in the health sector as a case study.

4. AID FINANCING AND THE HEALTH SECTOR

A mix of domestic and external funds finance the health sector in Tanzania. Domestic funds are mainly generated through taxation, whilst development partners use three different modalities to disburse development assistance towards Tanzania's health sector.

- The first is the basket fund, which was established in 1999 and is earmarked pooled health sector funding allocated to the Ministry of Health and Social Welfare (MOHSW) and regional and local authorities.
- Second, since 2001 development partners have been providing General Budget Support (GBS) to the revenues of the Ministry of Finance and Planning, some of which are allocated to the health sector.
- Lastly, development partners also provide funding for vertical programmes and some off-budget funds to non-government agencies.

Table 5: A Summary of Sources of Health Financing in Tanzania

Source	On-budget	Off-budget
Domestic	Central Government Funds Government transfers to National Health Insurance Fund	Health Services Fund (User fees) Community Health Fund/TIKA Drug Revolving Fund Council Own-Sources
Foreign	General Budget Support Health Sector Basket Fund *Certain* funded Projects and Programmes	*Some Foreign Funded Projects and Programmes*

Three main sources of data are considered in this section, which are not entirely consistent with each other:

- The AMP contains aid disbursements for health consolidated by two main modalities: the Health Basket Fund (HBF), and the Health Project Fund/Support (HPS);[16]
- The consolidated figures on on-budget health expenditures from the Public Expenditure Review (PER) of the Ministry of Health and Social Welfare (MOHSW) cover public health funding directly financed by the Government of Tanzania, including health insurance contributions on behalf of public servants, on the one hand, and aid funding by development partners through health basket fund and non-basket mechanisms (insofar as these are captured on-budget), on the other (MOHSW 2012/13).[17]
- The National Health Accounts, also compiled within the MOHSW, provides estimates of all expenditures on health and, hence, seeks to include estimates of both on-budget and off-budget health expenses.

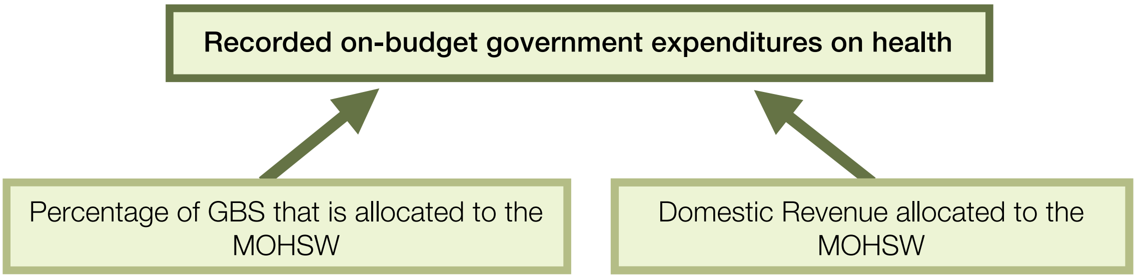
[16] Unlike education, health does not receive Sector Budget Support

[17] Note, however, that the PER treats GBS as part of contribution by the Government of Tanzania towards health, thereby resulting in an overestimation of the Government's contribution towards health financing.

In this section, we argue that, while the country has made enormous strides in improving its population's health, the current health financing structure is not sustainable. We will show that a very high proportion of Tanzania's total health spending comes from foreign donors rather than from sustainable sources such as government tax-based revenue or health insurance (West-Slevin and Dutta 2015). Moreover, we further argue that not only the volume of aid, but also its distribution across different aid modalities matter for dealing with the sustainability of health financing. This relates in particular to the heavy dependence on DPF within the confines of vertical programmes.

a. Contrasting definitions of the magnitude of aid financing in health

The way data on health financing in Tanzania are constructed can lead to discrepancies in determining the magnitude of health financing and the role of foreign aid therein. The Ministry of Finance and Planning (MOFP) defines all of its funding to the Ministry of Health as "Government's financing towards health" despite the fact that most social welfare expenditures are not necessarily health related. But funding for people with disabilities, which is clearly health related, is not defined as spending on health because it falls under a different ministry (the Prime Minister's Office). The MOFP include part of the Global Fund HIV/AIDS spending, but the World Bank does not. As noted earlier, the MOHSW treats general budget support as a local source of health financing and so does the PER of health expenditures. Consequently, what is listed as domestic resources for health financing in the PER is a combination of domestic sources (mainly from taxation) and foreign funds (GBS allocated towards health), as shown illustrated below:



The PER and the National Health Accounts (NHA) differ markedly on their treatment of GBS. The PER treats GBS as part of contribution by the Government of Tanzania towards health, thereby resulting in an overestimation of the Government's contribution towards health financing. NHA treats GBS towards health as external funding, thereby resulting in a lower estimate for domestic funding. Surprisingly, however, the difference between the PER and NHA on domestic sources (Government of Tanzania) is only 25.13 Billion Tanzanian Shillings, which seems far too low. There are also large discrepancies between PER and NHA concerning the overall magnitude of foreign financing.

Table 6: Actual Sources of Financing of Health in Tanzania as Captured by PER and NHA (FY 2009/10) ***(in Billions Tanzanian Shillings)***

Source	PER	NHA
Government of Tanzania	578.8	603.9
Foreign	328.5	919.4
Out of Pocket (OOP)	10.9	750.3
Other Private		49.4
Total Expenditure	918.1	2322.9

Source: Data obtained from the Tanzania Health Public Expenditure Review, 2012/2013 and Tanzania National Health Account (2009/10) (Ministry of Health and Social Welfare).

Two contrastive conclusions follow from Table 6:

- Looking at the PER, one would conclude that the Government of Tanzania is the biggest financier of the health sector in Tanzania—the PER (2012/13) notes that "Government funding remains the main funder of the health sector."

- In contrast, the NHA has consistently noted that donors remain the biggest financiers of health expenditure and that foreign financing was about 40% of total expenditure on health (NHA 2009/10).

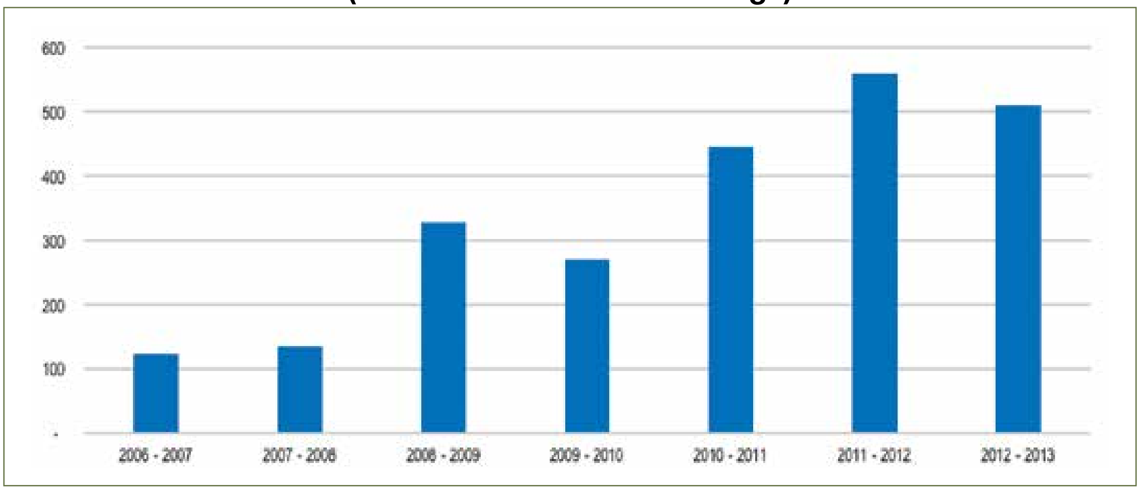
The major reason for this difference between the PER and NHA concerning the foreign contribution towards health in Tanzania is that most of the health expenditures by development partners *happen off-budget*. Consequently, donors effectively play a much bigger role in financing health than is captured on-budget by the PER. As the table shows, the amount of donor spending on-budget (as listed in PER) was only a third of what donors actually spent on health (as listed in NHA). The difference, therefore, concerns off-budget expenditures, part of which is disbursed by development partners towards NGOs working in the health sector. According to NHA, the discrepancy between on- and off-budget aid expenditures appears to have widened over time, as illustrated by the following quotation:

Whilst NGOs controlled 25% of total health expenditure in 2009/10, rising from 9% in 2005/06, the MOHSW controlled 18% of the total health expenditure in 2009/10, down from 33% in 2005/06" (NHA 2009/10). An important consequence of this greater reliance on off-budget aid funding is that these resources are not fungible with government financing mechanisms and operate parallel to (and, hence, not integrated within) the existing national public structures of health provisioning. We return to this point below.

b. The foreign financing of the health sector across aid modalities

This section takes a closer look at the data from the AMP to assess the contribution of development partners towards financing of the health sector in Tanzania. Figure 8 shows the relevant trends in ODA expenditures on health.

Figure 8: Trend of Foreign Financing Towards Health in Tanzania (in Billions Tanzanian Shillings)

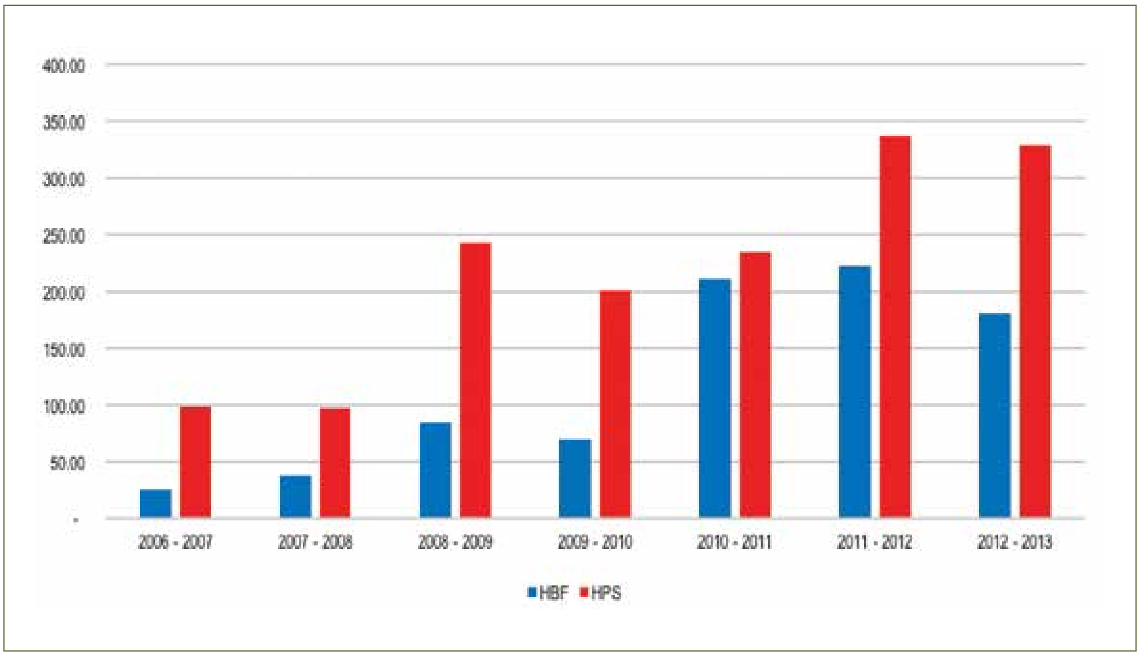


Source: Data obtained from the Tanzania Aid Management Platform, 2016 (Ministry of Finance and Planning).

Figure 8 shows that ODA disbursements towards health have increased steadily and steeply in volume over the period as a whole. Looking at the two main modalities, Health Project Support (HPS) and Health Basket Fund (HBF), ODA towards health has grown at an annual growth rate of 27% and has more than tripled between 2006-2007 (123 Billion TZS) and 2012-2013 (510 Billion TZS).

Figure 9 shows that development partners disbursing ODA to the health sector consistently preferred Project Support to Basket Funding.

Figure 9: Trend of Foreign Financing Towards Health in Tanzania by Modalities (in Billions Tanzanian Shillings)



Switzerland, UNICEF, and UNFPA are the most consistent donors in the use of the HBF modality. Others that have disbursed funds towards the HBF are the World Bank, Ireland, Netherland, Canada, and Norway. In comparison, 30 development partners use the DPF and this list includes USAID, DFID, the EU, and the Global Fund for HIV, TB, and Malaria.

In health, therefore, instead of pooling funds together and allowing the Ministry of Health and Social Welfare to decide on the distribution of the funds as per its (MOHSW) sector priorities, donors prefer to run their own vertical programmes.

In our analysis, we refer to on-budget funding as health financing that is captured within the government budget. As explained earlier, the data for the health financing on-budget can be obtained from the PER. The distinction between on- and off-basket funding matters since, particularly in the health sector, there are major discrepancies with regards to the volume of funds to support the health sector in Tanzania as reported by development partners with those captured by the budget. As was shown above, some bilateral donors provide project support to NGOs and other organizations which aren't always captured on-budget (Dutta and West-Slevin 2015).

Focusing on the PER, Table 7 shows that foreign public expenditure on health has been increasing and has more than doubled between 2006/7 and 2012/13.

Table 7: On Budget Donor Health Financing Modalities 2006/7 to 2012/13 in Billion Tanzanian Shillings

	FY 2006/7	FY 2007/8	FY 2008/9	FY 2009/10	FY 2010/11	FY 2011/12	FY 2012/13
Foreign	*164.72*	192.96	239.57	328.50	340.80	340.84	*386.02*
Basket	*103.20*	80.96	85.40	128.80	126.82	151.01	*159.65*
Percentage of Basket	*63%*	42%	36%	39%	37%	44%	*41%*
Non-basket	*61.51*	112.00	154.17	200.05	213.98	189.83	*226.37*
Percentage of non-basket	*37%*	58%	64%	61%	63%	56%	*59%*

Source: Data obtained from the Tanzania Health Public Expenditure Review, 2012/2013 (Ministry of Health and Social Welfare).

Consistent with the findings on general ODA trend and development partners preferred modality of financing the health sector, donors who disburse funds on-budget prefer the non-basket financing mechanism. The most significant increase in foreign expenditures on health, therefore, has been through non-basket funding, particularly vertical programmes.

c. Effectiveness, priority setting and sustainability of vertical programmes

Vertical programmes (also known as stand-alone, categorical or free-standing programmes, or alternatively, the vertical approach) refer to instances where the solution of a given health problem [is addressed] through the application of specific single purpose measures within the confines of its own organisational set-ups. For donors, the desire to see measurable results of their investments makes programmes with specific objectives, targeted at specific health problems, especially attractive. Vertical programmes are perceived to have strong central technical and financial control, the ability to respond to changing circumstances and the identification of new strategies; focused objectives, achievable in a limited time-frame; and an appeal to external donors. Although they are very expensive to establish and run, vertical programmes have undoubtedly been effective in addressing disease specific needs in Tanzania.

Kida and Mujinja (2014, for example,) found that the positive gains of the Health Sector Reform (HSR) derived mainly from the operation of vertical programmes and foreign-financed health services. For instance, improvements in child survival resulted from the increased attention from development partners since the mid-1980s, large funding increases since 2000, and has focused on the implementation of high-impact interventions at lower levels of the health system.

Disease-specific programmes have brought services closer to communities. These programmes have worked in communities constrained by weak government health systems in terms of shortages of health workers, deficient supply systems and poor infrastructure. This has created well-funded and functioning disease-specific interventions embedded in a poorly functioning health system.

But this emphasis on donor funded and donor managed projects also has major consequences for overall policy making in matters of health, as illustrated by the following quotation from Hunsmann concerning the HIV/AIDS programme in Tanzania:

Notwithstanding their undeniable health benefits, international AIDS-control initiatives in Tanzania bypass domestic administrative and representative structures, depriving Tanzanian people of a variety of crucial decisions related to HIV and the balanced distribution of resources between HIV/AIDS and other health problems. As Nguyen (2010: 181) underlines, '[m]ass HIV interventions have taken triage to a whole new level, as they select out people with HIV for lifesaving treatment while others who also face illness and even death from non-HIV diseases are left behind'. In many African countries, tensions concerning the expenditures asymmetries within the health sector culminated in the late 2000s, a period in which AIDS-related expenditures in Tanzania briefly exceeded the country's non-HIV health expenditures, even though AIDS-related illnesses accounted for only slightly over 20% of the population's overall burden of disease. The unequal effectiveness of international resource mobilization for different health problems thus results in a dispossession of African countries through an external imposition of disease hierarchies." (Hunsmann, 2016: 806)

In contrast, the Health Public Expenditure Review (2012/13) shows that on-budget expenditure in health decreased *in real terms* by 12% between 2009/10 and 2012/13. Moreover, in 2012/13, the health sector received 8% of Government of Tanzania's local (domestic and GBS) resources and that this has declined to 6% in 2013/14. The increase in foreign non-basket funds in part compensated for these declines in local resources to the health sector, but it did so mainly through its own parallel mechanisms of priority setting and organisational structures.

Indeed, vertical programmes work parallel to and, hence, effectively independent from Government structures and are directed, supervised, and executed, either wholly or to a great extent, by a specialized service using dedicated health workers. Box 2, for example, shows that more than 98% of majority of spending on HIV and AIDS in Tanzania was financed by donors. Crucially, the US Government (PEPFAR) and the Global Fund account for 86 percent of the support of donors in response of HIV and AIDS. Vertical programmes increasingly cover recurrent costs of service delivery related to the disease-specific areas of HIV/AIDS, control of communicable diseases, and support to TB/Leprosy programmes (RBA 2013). Funding from Global Fund cover costs such as ARVs, rapid diagnostic tests, lab supplies as well as treatment.

Box 2: Magnitude of Donor financing of HIV/AIDS Programme in Tanzania

The vast majority of spending on HIV and AIDS is financed by development partners—over 98 percent between 2011/12 and 2013/14. The U.S. government (President's Emergency Plan for AIDS Relief (PEPFAR)) and the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) account for 86 percent of the total donor support to the national response; this fell from 91 percent in the 2010/11 PER. Government and DP spending earmarked for HIV and AIDS fell between 2012/13 and 2013/14; this decrease is more pronounced after removing exchange rate changes. Decreases are also expected in 2016/17 and 2017/18.

In 2011/12, PEPFAR spent approximately half of its funding on care, treatment, and support at the facility and community-based levels. Nearly one quarter of its spending was on prevention activities, such as Prevention of Mother to Child Transmission (PMTCT) (8 percent), testing and counselling (7 percent) and Voluntary Medical Male Circumcision (VMMC) (3 percent). In contrast, in 2011/12 the Global Fund spent the majority of its grants (85 percent) on crosscutting activities to strengthen national-level multi-sectoral coordination. Global Fund also funded some prevention work, particularly PMTCT (6 percent) and testing and counselling (3 percent). The Global Fund also provides financial support to the government and civil society organizations, with significant resources allocated to health commodities such as antiretroviral drugs (ARVs), HIV rapid diagnostic tests, lab supplies and other supporting interventions. The government of Tanzania spent nearly all its resources on facility-based care, treatment, and support; the available data show predominantly antiretroviral therapy (ART) spending (97 percent), followed by treatment for opportunistic infections (1 percent).

Sources: Mujinja and Kida (2014), and Tanzania HIV/AIDS Public Expenditure Review 2013/2014

Box 2 shows that, apart from its impact in terms of shaping priority setting in health, vertical programmes also pose serious challenges in terms of securing their sustainability in the future, particularly within a context of reduced aid dependency.

This question of sustainability is often equated with that of *financial sustainability*, but this is only one aspect of a more complex problem that needs to be addressed. The other concerns the fact that vertical programmes effectively influence and shape the nature in which *productive capabilities* in the effective delivery of health provisioning are managed and operationalised within the country.

- First, with respect to financial sustainability, it is important to note that funding for vertical programmes are, to a great extent, *not fungible* with Tanzania local resources, Indeed, as we have shown, the majority of these funds are not even captured on-budget. The question of sustainability, therefore, does not only concern the question of internalising the financing of on-budget health expenditures through the gradual substitution of foreign by local funding, but also of finding concrete mechanisms to bring off-budget expenditures on health within the ambit of local financing. Indeed, most vertical programmes often cover recurring expenditures on salaries, drugs and transport for health care *delivery* of disease-based programmes such as HIV and AIDS and Malaria, which raises questions regarding the long-term sustainability of health care currently covered within these programmes once donor support ends.

- Second, these vertical programmes pose the related challenge of how to prevent the loss of the existing productive capabilities these programmes developed and operationalised in the delivery of health care, which inevitably requires finding mechanisms and concrete processes through which existing systems of delivery located within the confines of these programmes can be transformed and integrated within the general public health provisioning system (which, at present, is already severely overburdened and underfunded) in the future. [18]

Both these aspects, we argue, need to be addressed to secure an effective process of reduction of aid dependency within health provisioning. With respect to financial sustainability, the government is exploring a range of innovative financing solutions and the country has a favourable macroeconomic situation with chances of growth in public revenue. Specifically, due to its substantial dependence on the Global Fund and PEPFAR, the government is considering establishing an AIDS Trust Fund (ATF). If successful, the ATF will reduce Tanzania's dependency on external funders by 36 percent in the short term (not defined), and by 2028 will meet half of

[18] Moreover, Mackintosh and Tibandebage (2016) show that, while Tanzania witnessed particularly rapid market expansion for medicines and other essential supplies in health such as bed nets, so have imports of medicines and other medical supplies, many procured through vertical programmes. Put differently, vertical programmes in health tend to have a strong import bias, even in areas where local productive capabilities exist.

the country’s total need (West-Slevin and Dutta 2015).

But there is also the need to attend to the second aspect – preserving and transforming productive capabilities in health delivery presently covered by the vertical programmes – to be able to achieve the dual purpose of sustaining and improving health care in the future, while progressively reducing aid dependency in health care in Tanzania.

5. CONCLUSIONS

This paper sought to provide food for thought, conceptually as well as empirically, about the nature of aid dependency in Tanzania, particularly focusing on the recent decade that witnessed the change from MKUKUTA as the dominant macro policy framework to its merger and integration within the revival of Five Years Development Planning (FYDP) with its explicit emphasis on industrialisation and economic transformation to achieve middle-income status in the near future in Tanzania. In doing so, we have argued that an analysis of aid dependency cannot merely focus on the quantitative extent of aid dependency, but must also take account of the changing nature of the modalities through which aid is channelled to and delivered within the public sphere.

Our focus in this paper, therefore, was explicitly concerned with conceptual analysis and empirical enquiry of aid dependency, and hence not with policy prescription. In this respect, we remind the reader that the empirical analysis presented in this paper should be seen as work-in-progress. Much research still remains to be done to get a clearer picture of the extent of aid dependency, and, more specifically, how aid differentiates between on- and off-budget expenditures. We think, however, that this analysis may nevertheless provide food for thought for thinking about policy, particularly within the light of the government's stated objective of progressively phasing out Tanzania's aid dependency in the future.

In this brief concluding section, therefore, we briefly highlight some salient features of the analysis presented in this paper that may be particularly relevant for policy making.

To start with, we would like to reiterate some stylised facts about the total volume of aid (as reported in the AMP data base), both in absolute terms and in relative terms (relatively to the volume of public expenditures), and of its changing distribution across different aid modalities. This, we hope, may help to correct what we believe to be some common misconceptions that appear to prevail within newspapers and among the public about what has been happening to aid in recent years.

- Over the last decade, from 2005-06 to 2014-15, the total volume of ODA aid to Tanzania, as measured by its aggregate value in US dollars, has witnessed very rapid growth, that tapered off only in the last two years. By 2014-15, total ODA aid stood at more than *triple* its level in 2005-06, notwithstanding the global financial crisis of 2008 and the economic depression that followed within the OECD countries.

- There was, however, a significant shift in the distribution of ODA aid between the different modalities through which it is channelled: more specifically, general budget support declined dramatically as a share of total ODA aid, while the share of direct project funding rose significantly. Donors, therefore, increasingly preferred to channel their aid within the confines of donor-managed projects, some of which operated off-budget, thus reducing the room of manoeuvre of government in priority setting in public policy and in managing public expenditures.

From the perspective of government finance, however, the relative importance of (on-budget) aid dependency clearly decreased, particularly from 2013-14 onwards, which appears to have been due to two separate trends at work:

- First, the narrowing of the gap between domestic revenues and total government expenditures: more specifically, from 2013-14 onwards, domestic revenues came to exceed recurrent expenditures.

- Second, in relative terms, the foreign financing of the government deficit shifted away from concessionary aid-related financing towards non-concessionary borrowing, particularly with respect to development project loans.

More generally, looking at total aid disbursements as reported in the AMP data base, the picture is as follows:

- In relative terms, during this period, ODA aid (expressed as a percentage of total government expenditures) fell from the 35 to 40% range in the earlier years down to the 25 to 30% range in the later years. The main reason for this, therefore, was not so much due to the decline in the total volume of ODA aid in US dollars, but rather to the growth in the nominal value of total government expenditures.

- The fall in the share of general budget support in total government expenditures, however, was much more dramatic, down from its peak of nearly 19% in the earlier years to 6.6% in 2014-15. In contrast, direct project funding expressed as a percentage of total government expenditures remained relatively stable and even rose slightly in the latter years.

- The share of non-GBS ODA aid allocation to the three major social sectors (health, education and water) increased significantly during this period: more specifically, over this period it rose to slightly more than twice its level in the earlier years (not including the exceptional peak in 2012-13).

- A salient feature of this increased emphasis on social provisioning has been the growing importance of direct project funding, a significant part of which is channelled within the confines of off-budget vertical programmes, particularly (but not only) within the area of health provisioning.

The picture that emerges from our analysis, therefore, is not that of a dramatic withdrawal of overall aid from Tanzania in recent years, but rather that donors appear to have become increasingly more reluctant to channel aid through the budget, and, more specifically, in the form of general budget support. Instead direct project funding has reasserted itself as the dominant form of aid delivery, but it is no longer only confined to investment support as it used to be in the past.

More broadly, there is an interesting anomaly about the evolution of aid dependency in Tanzania, particularly when viewed within a larger time perspective. In the aftermath of structural adjustment, Tanzania was deeply aid dependent, particularly within the arena of economic development. As Wuyts and Kilama (2014) have shown, domestic savings were almost non-existing and, hence, domestic investment largely depended on the inflow of foreign aid. In the last 20 years, however, the Tanzania's economy has become considerably less aid dependent, which can be seen as a major and remarkable achievement.

But, in sharp contrast, social provisioning – particularly as defined by allocation of public resources to the social sectors – has effectively become more aid dependent, which, as we have shown in the case of health care, has increasingly come to depend on direct project funding of recurrent expenditures, a significant proportion of which takes place within the confines of vertical programmes. This has important consequences for thinking about policies to phase out aid dependency.

More generally, in this paper we have argued that, historically, there have been major shifts in the emphases in the nature of aid policies: broadly speaking, the trend has been away from aid as direct investment support towards aid as support for poverty reduction. This overall change has also led to greater diversity prevalent in recent years in the modalities through which aid is channelled. What this means is that, historically, it was the objectives of aid that shaped the nature of the modalities of its financing, and not the other around.

Consequently, we would argue that the policy of reducing aid dependency in the future is not just of question of the volume of finance – substituting foreign for local sources of finance – but must inevitably also involve processes of transformation that will of necessity have to involve close collaboration between donors and government, particularly in the case of direct project funding, to preserve, internalise and develop sustainable capabilities in the production and delivery of public goods and services. This challenge, we argue, is particularly acute within the sphere of social provisioning which still remains deeply aid dependent within Tanzania.

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