
“Budget support has a visible impact“

*Benno J. Ndulu, Governor of the Bank of Tanzania,
is talking to Richard Gerster**

R.G.: During the recent months the Bank of Tanzania (BOT) was in the headlines in relation to corruption cases. Usually people view the central bank as a stronghold of integrity. What had happened?

B.J.N.: In the 1970s and 80s private companies paid their bills for commercial transactions in Shillings but the Government did not honour its foreign obligations because it was short of foreign exchange. The external payment arrears account accumulated the private payments in shillings. It grew due to interest payments and the enormous depreciation of the shilling towards the US dollar – in 1985 the dollar had a value of a bit more than 7 shillings, five years later it was at 60! The foreign suppliers claimed their money, and a number of claims were misrepresented fakes but got paid out of this arrears account. According to an external audit by Ernst & Young, out of a sum of over 100 million dollars, some 70 million dollars were fraudulently acquired, and 30



Professor Benno J. Ndulu is the Governor of the Bank of Tanzania. Prior to his appointment in January 2008, he served as Country Manager, Tanzania, and Sector Lead Specialist of the World Bank. He was involved in setting up the African Economic Research Consortium, served first as its Research Director and later as its Executive Director. Benno J. Ndulu received an honorary doctorate from the ISS in The Hague (Netherlands). Following his PhD degree in economics from Northwestern University in Evanston (UK), Benno J. Ndulu taught economics and published widely on growth, adjustment, governance and trade.

million dollars are still under investigation. Having said that, I would like to emphasize that not a single cent has been taken off government accounts, neither from Tanzanian tax revenue nor from foreign funds, nor their safety had been at risk at any time. The money to finance the fraudulent transactions has simply been printed.

How did you overcome the crisis? And, as importantly, what was done to prevent the same pattern coming up again?

President Jakaya Kikwete dismissed my predecessor because of the theft and the Bank of Tanzania dismissed its officials who were involved in the fraudulent transactions. Criminal investigations were conducted against BOT officials and a number of people from private companies. Moreover, all were urged to repay and have now been taken to court to answer criminal charges. Out of the fraudulent 70 million, 55 million dollars were returned. The parliament decided to use most of it for agriculture and livestock development.

Looking ahead we must realise theft is theft. For that reason we have jails. With criminals at work, it is an illusion to eliminate crime completely even after adopting a policy of zero tolerance. But we have done what we can to eliminate the weaknesses in our system. First, we asked the International Monetary Fund (IMF) for a voluntary safeguard assessment on how to strengthen our controls. Second, the internal audit system and the external audits were strengthened. The audit reports are public. Big transactions are even pre-audited. These and further measures have been taken. The rules are much more solid now.

The budget of the Government of Tanzania is supported by a range of 14 donors. The government considers General Budget Support (GBS) as its preferred aid modality. What are the advantages of GBS?

We are the bankers to government. The Bank of Tanzania receives the resources from the donors, exchanges them into the local currency and deposits them in a government account which undergoes the usual audit procedures. The key advantages of GBS are to provide flexibility to the government to finance those priority activities which are short of funding. If all donors prefer education and neglect other fields, the government can compensate and invest in agriculture. In the old system a lack of coordination caused considerable costs. With a proliferation of projects you may have had several school buildings in the same neighbourhood and not enough school children, or an access road was missing, etc. Another important objective of GBS is to increase predictability of funding. When the agreed actions and objectives in the performance assessment framework (PAF) are achieved, the funds are automatically released. Let us not forget that GBS offers space for greater ownership by government. And as a banker I see that GBS facilitates monetary policies of the central bank.

This is the sunny side of GBS. In practice we face the problem how to treat governance in the dialogue and performance measurement. The IMF conditionality has produced more predictable results than what we face now. If an unforeseen event happens, governance concerns including corruption or party political issues come up like a trump card and there is not sufficient time given to sort out the issues. The development partners are not accountable to the Tanzanian people but to their home constituencies. That influences our relationship. Predictability has remained the biggest challenge.

These issues concern aid delivery. The key question is, however, is GBS pro poor? How do the ordinary citizens benefit?

The very visible impact of budget support is on health and education. I always wondered how people can expect immediate income results when we primarily expand expenditure in the social sectors. At present public consumption, will say education and health, overrides private consumption. However, in the long run the vitality of investments by the private sector will decide

whether we generate enough income and tax receipts to sustain the expanded social sectors.

In the group of GBS donors, Switzerland is with a contribution of less than one percent a small player. Does it make sense at all to stay on board?

The views around the table are appreciated notwithstanding the financial volume. Smaller donors sometimes have a more independent thinking and are prepared to speak out. Moreover, a broad support from various donors is an encouragement for the government and makes a ganging up among donors more difficult. Switzerland does a good job. I had personally been involved in an evaluation years ago. I still remember the Swiss spirit of innovative thinking that prevailed in the training of small contractors in Morogoro region. It became an important model which was adopted country-wide. This leverage provided real value for money – for Tanzania as well as for the Swiss taxpayers. Also in GBS the Swiss contribution benefits from an enormous leverage – in favour of the poor.

In the Bank of Tanzania we enjoyed Swiss support over many years for capacity building of our staff in many departments. Technical assistance programs frequently are parachuting experts but the Swiss support is strictly driven by our demand. Over the years a very solid basis for independent policy making has been created. The Financial Programming Department uses its Financial Programming Framework, a product of Swiss support to the Bank of Tanzania, to negotiate with the IMF and does it today with much better understanding and ownership.

Let's face it: Tanzania is a heavily aid dependent country. Some donors believe they can buy policies. How do you assess donor influence? Do you see aid dependency as a problem at all?

The recurrent government budget for 2008/09 experienced a dramatic shift to funding based on own revenues – self-financing is now close to 100 percent. Overall aid dependence, including investment, has been reduced from 42 percent in

the previous financial year 2007/08 to 34 percent. The attitude of government is very clear: reducing aid dependence is a priority. We cannot afford a disruptive stop and go policy. The predictability concerns force us to act. We mobilise own revenues.

The fundamental problem of aid is the dual accountability. Donors justify aid towards their taxpayers, and the beneficiaries of aid are our people. Do Swiss citizens share the same interests as does our electorate? If not, donors may be pushing for policies according to their own agenda which may not respect our democratic processes. Increasing the domestic tax base means also to strengthen domestic accountability – taxpayers are demanding citizens. In today's Tanzania domestic constituencies are no longer voiceless. Our ministers face tough questions in parliament and are challenged by the media. Governance issues have to be seen in this broader perspective of our moving democracy.



* The author, Dr. Richard Gerster, is an economist and works as independent consultant and publicist (www.gersterconsulting.ch). This interview is part of a series commissioned by the State Secretariat for Economic Affairs (SECO) to take a closer look at budget support from various points of view. They reflect the author's personal opinion.