
ECONOMIC AND SOCIAL RESEARCH FOUNDATION
(ESRF)



ENHANCING AID RELATIONSHIPS IN TANZANIA:
IMG Report 2005

FINAL REPORT OF THE INDEPENDENT MONITORING GROUP

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Table of Contents

EXECUTIVE SUMMARY	III
1.0 INTRODUCTION	1
1.1 BACKGROUND AND CONTEXT	1
1.2 METHODOLOGY AND APPROACH	2
1.3 IMPLEMENTATION OF IMG 2002 REPORT RECOMMENDATIONS	2
2.0 GOVERNMENT LEADERSHIP AND OWNERSHIP IN THE DEVELOPMENT AND POLICY PROCESS	3
2.1 OWNERSHIP, LEADERSHIP AND PARTNERSHIP: CLARIFICATION OF THE CONCEPTS	3
2.2 TANZANIA ASSISTANCE STRATEGY	4
2.3 PROGRESS MADE IN ACHIEVING LEADERSHIP AND OWNERSHIP	4
2.4 PROGRESS WITH HARMONISATION AND ALIGNMENT	7
2.5 MOVING FROM TAS TO JAS	8
2.6 LEADERSHIP AND OWNERSHIP ARE CONSISTENT WITH REDUCTION OF TRANSACTION COSTS	10
2.7 GOVERNANCE AND OTHER CROSS-CUTTING ISSUES: MECHANISM FOR DIALOGUE	11
3.0 OWNERSHIP, POLICY DIALOGUE AND HARMONISATION WITH SECTORS AND LOCAL GOVERNMENTS	13
3.1 LOCAL DEVELOPMENT MANAGEMENT	13
3.2 THE CASE OF EDUCATION	15
3.3 CASE OF AGRICULTURE	21
3.4 GENERAL OBSERVATIONS ON SWAPs	24
4.0 DEVELOPMENT PARTNERS AND DIALOGUE PROCESSES	28
4.1 THE DEVELOPMENT PARTNERS GROUP (DPG)	28
4.2 STREAMLINING THE DIALOGUE PROCESS	31
5.0 PARTICIPATION OF BROADER CONSTITUENCIES: DEEPENING AND INSTITUTIONALISING	34
5.1 CIVIL SOCIETY	34
5.2 PRIVATE SECTOR	37
6.0 BUDGET PROCESS AND PUBLIC FINANCIAL MANAGEMENT AND ACCOUNTING SYSTEMS	40
6.1 BUDGET PROCESS: PLANNING, POLITICAL PROCESS AND PUBLIC RESOURCE MANAGEMENT	40
6.2 PROGRESS IN PUBLIC FINANCIAL MANAGEMENT	43
6.3 INTEGRATION OF RESOURCES, REPORTING AND ACCOUNTABILITY SYSTEMS	44

7.0	AID DELIVERY: EFFICIENCY AND EFFECTIVENESS	47
7.1	AID DEPENDENCE: CASE FOR EXIT STRATEGY	47
7.2	AID MODALITIES: CLARITY IN GOVERNMENT PREFERENCE	48
7.3	DEFINING THE NEW ROLE OF DEVELOPMENT PARTNERS	53
8.0	TECHNICAL ASSISTANCE AND CHALLENGES OF CAPACITY BUILDING.....	56
8.1	RECOMMENDATIONS	57
9.0	CONCLUSION AND RECOMMENDATIONS.....	59
9.1	FOR GOVERNMENT OF TANZANIA	59
9.2	GOOD PRACTICES IN RELATIONSHIPS AMONG DEVELOPMENT PARTNERS.....	61
9.3	GOOD PRACTICE BETWEEN GOVERNMENT AND DPs	63
9.4	EXIT STRATEGY: TOWARDS SMOOTH TRANSITION FROM AID DEPENDENCE.....	64
9.5	NEXT STEPS	64
	ANNEXES.....	65
	ANNEX I: PROGRESS SINCE THE 2002 IMG REPORT	65
	ANNEX II: TAKING STOCK OF THE ASDP	68
	ANNEX III: LIST OF PEOPLE INTERVIEWED	70

EXECUTIVE SUMMARY

In 1997 the Government of Tanzania (GoT) and the development partners (DPs) agreed to adopt the recommendations of the Helleiner Report. On that basis, the GoT and DPs agreed to institute monitoring and evaluation mechanisms in which progress in the aid relationships would be reviewed and review reports submitted to GoT and DPs for discussion and agreement on the next steps. The current report is part of that process following three reports by independent evaluation reports by Helleiner (in December 1997, March 1999 and May 2000) and one report by the IMG in 2002. The current report is the second report by the IMG. The purpose of this report is to provide a review of the status of the development partnership (aid/donor) relationship in Tanzania and progress made towards principles and objectives set out in the TAS document since December 2002.

The IMG team¹ approached its work by collecting data from both primary and secondary sources. Data was gathered from various documents in the Government of Tanzania, donor agencies, recent OECD-DAC sources, ESRF past research papers and other relevant literature. Desk reviews were complemented by field interviews which the IMG carried out, in Dar es Salaam and three regions, with relevant officials in government departments, donor agencies in Tanzania, parliamentarians, civil society and private sector organizations.

The key messages that we can draw from the current study assessment are as follows:

- § GoT leadership and ownership has been strengthened. The GoT is more assertive, better organised and better prepared in dialogue with development partners. Progress has been made in terms of leadership and ownership of the development agenda, now defined in the second generation PRS (MKUKUTA) which is both more consultative and national in character than the first PRS. Nonetheless, the level of ownership is still rather narrow in GoT with many sector ministries still showing rather low levels of ownership.
- § The formulation of national priorities and processes in Tanzania Mainland and Zanzibar are not yet harmonised. Initiatives that have started to address harmonization of PRS processes in Tanzania Mainland and Zanzibar should be continued. This mechanism should start with harmonizing national priorities in Tanzania Mainland as expressed in MKUKUTA with those of Zanzibar as expressed in ZPRP. It is recommended that the JAS contain a clear definition of how resource allocation and the relationship with DPs should be harmonized between the two parts of Tanzania.
- § Reasonably good progress has been made in rationalisation and harmonisation and alignment of processes with a view to reducing transaction costs. This is encouraging in the light of development partner commitments to push ahead more vigorously with harmonisation and alignment following the 2005 Paris High Level Forum². In the case of Tanzania, promising examples include:

¹ The IMG team comprised four persons: Prof. Samuel Wangwe (Chairperson), Mr. Dag Aarnes (Consultant/Senior Economist, Partner Assist Consulting AS), Prof. Haidari Amani (Executive Director of ESRF) and Dr. Alison Evans (Independent Consultant and Associate of ODI, London - who made her contributions through commenting and contributing to drafts at all stages of this work). In carrying out research for this work the team received contributions from Mr. Deo Mutalemwa, Ms Kate Dyer (on the Education sector) and Ms Moorine Lwakatare.

² See the Paris Declaration on Aid Effectiveness: Ownership, Harmonisation, Alignment, Results and Mutual Accountability. High Level Forum February 28 -March 2 2005.

- ü Encouraging progress has been made in the use of common reviews frameworks such as the Performance Assistance Framework (PAF), which has increasingly been drawing from policy reforms and national priorities and policies contained in the PRS. Policy dialogue has made progress especially in terms of architecture but there is a challenge of PRBS vs. PAF in terms of reconciling national priorities and external conditionalities.
 - ü Discussions are in progress to evolve the TAS into a JAS and to define what the role of the JAS should be and how it should be formulated and constituted. JAS should take the opportunity to take stock of where progress has been made and draw lessons from TAS and chart the best way forward. Thus it should:(i) identify where progress has been slow and what should be done; (ii) identify where rationalizing and simplifying the multiplicity of processes and frameworks can reduce transaction costs further possibly; (iii) provide guidelines on how projects can be made to use government systems, how best projects currently operating in parallel systems should be mainstreamed and specify what forms of project modality are preferred; and also (iv) indicate how best to enhance ownership, alignment and harmonization.
- § Integration of national processes with sectors and local government has made progress but areas of concern remain. There is still a disconnection between sector policies, strategic plans and the budget. SWAPs have not been developed into fully integrated sector programmes guided by clear sector strategic plans consistent with MKUKUTA. Sector MTEFs, client consultation mechanisms, defined coordination and harmonisation processes also lag behind.
- § Public resource management has improved considerably. Transparency and accountability of public financial resources has improved. The IFMS has been rolled out to all regions. Progress has been made in strengthening the predictability of resources. However, the weakest link is in the quality of the budget process. The budget does not yet function as the strategic policy and resource allocation tool it is supposed to be. In the policy-budget-service delivery chain, budget formulation is seen as the weakest link. This suggests that there is need to continue to strengthen the role of Parliament in enhancing the quality of the budget process.
- § Participation by all stakeholders in policy dialogue has been broadened and is becoming more institutionalized. The quality of exchanges has been much higher. The sectors have been involved more explicitly. The regions have been involved more widely than in the past. Overall, it has been found that the level of participation in policy dialogue has grown considerably. However, there are still areas of improvement. In particular, we are concerned that the level of participation is still relatively weak on the part of the mass media.
- § GoT needs to be more assertive in stating its preferred forms of aid modality. The GoT has expressed a preference for General Budget Support (GBS) as an aid modality. In practice, however, the GoT has not been sufficiently emphatic on this preference. In our opinion, GBS should continue to be the preferred aid modality because it is consistent with greater levels of ownership, expenditure management, contestability of policies and resources and strengthened government systems. The JAS needs to be more assertive on this preference, by laying out the transitional plan in which the right mix of GBS, basket funds and project aid modalities coexist.

- Modes of delivering TA continue to be the most challenging in terms of being supply-led, tied to specific forms of procurement and with uneven results in terms of sustained capacity development. The matter is worsened by the absence of government policy on TA. GoT should prepare a clear TA policy in which at least three issues should be clarified. First, the role of TA in capacity development should be made clear. Second, the options of instituting recruitment systems and procedures that are based on open and competitive procurement should be considered seriously. Third, the policy should explore options of untying TA the source of funds.³
- § Concerns have been expressed about the risks of deepening aid dependence. Yet this has not been an explicit point of policy dialogue. In our opinion, the foundations for a smooth exit from aid dependence should be laid down. It is in this context that we argue that an exit strategy should be part of the dialogue between DPs and government. This should lead to a common understanding of exit, leading to a common target for phasing out aid both in terms of ownership and mindset as well as in terms of its role in the public sector budgets. This would create a mutual understanding of macroeconomic targets and a direction for the discussion on sustainability.
- ü The GoT has expressed preference for GBS as an aid modality. In practice the GoT has not been sufficiently emphatic on this preference. In our opinion, GBS should continue to be the preferred aid modality because it is more consistent with greater levels of ownership and greater degree of budget management, contestability of resources and strengthened government systems for expenditure management initiatives. However, JAS should be more assertive on this preference, by laying out the transitional plan in which the right mix of BGS, basket funds and project aid modalities coexist.
- The TA modality of aid has continued to be the most challenging in terms of continuing to be supply driven, tied procurement and little built in capacity building. The matter is worsened by the absence of government policy on TA. GoT should prepare a clear TA policy specifying that TA should primarily play the role of capacity building and that its recruitment procedures of TA should more open and competitive and untied to the source of funds.
 - Implementation of the Recommendations of the Report: The status of implementation of recommendations of the 2002 report indicates that reasonable progress has been made. However, it was observed that there has been no formal mechanism for following up the implementation of the IMG Report. It is our opinion that follow up of the recommendations of the IMG should be formalised at the Joint TAS/Harmonisation Secretariat. That way the TAS (or JAS) Report can devote a separate section on implementation of IMG Recommendations and Issues.

³ See OECD/DAC -World Bank Round Table on Strengthening Procurement Capacities in Developing Countries.

1.0 INTRODUCTION

1.1 Background and Context

In 1997 the Government of Tanzania (GoT) and the development partners (DPs) agreed to adopt the recommendations of the Helleiner Report. Thus they agreed on taking medium term action to redefine GoT-DP relationships in conceptualizing and managing development and in the broader definition of local ownership of the development agenda as well as in enhancing transparency and accountability in the delivery and utilization of aid. The redefinition of aid relationships meant that the GoT would take the necessary steps to provide leadership in designing and managing the development process and in enhancing effectiveness of aid and other public resources. For the new aid relationships to be realized, it was recognized that the GoT and DPs had a role to play and these matters were defined in the agreed points and refined in the Tanzania Assistance Strategy (TAS).

TAS provides the framework for strengthening donor coordination, harmonization, partnerships and national ownership in the development process. It provides a three-year strategic national framework covering aspects of national development agenda, policy framework, best practices in development cooperation, and framework for monitoring its implementation and priority areas and interventions. The TAS Action Plan was developed with a view to setting out practical steps for GOT and DPs to follow in implementing TAS.

The GoT and DPs agreed to institute monitoring and evaluation mechanisms in which progress in the aid relationships would be reviewed and review reports submitted to GOT and DPs for discussion and agreement on the next steps. Initially Prof. Helleiner made the reviews in December 1997, March 1999 and May 2000. Subsequently, the task of monitoring has taken two strands: joint evaluations and through an independent review mechanism. Undertaking independent reviews was entrusted to Independent Group known as the Independent Monitoring Group (IMG) appointed jointly by GoT and DPs. The first IMG Report was presented to the Consultative Group Meeting in December 2002. The second and current review is being undertaken two years later. The purpose of this report is to provide a review of the status of the development partnership (aid/donor) relationship in Tanzania. In this respect, this second IMG report makes an assessment of the progress made towards principles and objectives set out in the TAS document since December 2002.

The status of implementation of recommendations of the 2002 report is summarized in Annex I. It is shown that progress has been made in most cases and where progress has not been made the current report makes suggestions on the way forward. The current IMG Report (IMG Report, 2005) is expected to make a contribution towards shaping the Joint Assistance Strategy (JAS).

More specifically, this IMG Report is structured as follows: Chapter 2 examines the progress and status of government leadership in developing policy priorities, strategic frameworks. Chapter 3 examines aid relationships in local governments and sectors, taking case studies from education and agriculture sectors. It also ends with reflections on SWAps. Development partners and policy dialogue processes with government are addressed in chapter 4. Progress and status of participation is presented in chapter 5 with special reference to the degree to which GoT is involving civil society and private sector

in development of policies and strategies. Chapter 6 examines the budget process and public financial management and accountability systems. Chapter 7 addresses the efficiency and effectiveness of aid delivery systems including the adequacy and reliability of resource disbursements. Chapter 8 examines the progress and status of technical assistance and the degree to which they complement domestic capacity building efforts. Chapter 9 presents the conclusion and recommendations.

1.2 Methodology and Approach

The IMG team⁴ approached its work by collecting data from both primary and secondary sources. Data was gathered from various documents in the Government of Tanzania and donor agencies as well as from recent OECD-DAC sources. A desk review of these sources as well as ESRF past research papers, paid particular attention to major national policy related documents and studies that have been carried out in the recent past. These included Budget guidelines, Public Expenditure Reviews, Government Reform Programs, the Poverty Monitoring System, General Budget Support studies and other relevant documents on aid relationships.

Interviews were conducted with relevant officials in government departments, donor agencies in Tanzania, parliamentarians, civil society and private sector organizations. Field visits were made to three regions (Kagera, Morogoro and Dodoma) to gain first-hand information on the issues that the Report is addressing. Annex 2 (or 3) contains the list of the various persons met.

1.3 Implementation of IMG 2002 Report Recommendations

During the course of study for this Report, we have observed that there have been no formalised arrangements to supervise implementation of IMG recommendations. In Annex 1 of this Report a table is provided with a summary of the main issues and recommendations contained in the 2002 IMG Report and the status of implementation. Overall, however, over half of the 31 recommendations of the 2002 IMG Report have been implemented satisfactorily. However, in a few but significant cases (about one fifth), either no action was taken or progress made has not been satisfactory.

As regards follow up mechanisms, it was observed that short of discussing such a Report at the occasion of a Consultative Group Meeting, there does not seem to be a recognized format under which the main parties to the aid relationship, i.e. the GoT and the DPs, have to agree on a common action plan to implement the recommendations of the IMG. Well, in fact the parties can also reject some of them if they deem them unnecessary, unrealistic or no longer required. Although the TAS Action Plan as well as the TAS Annual Implementation Report FY 2003/04 have indicated that the government takes the IMG Report seriously and its recommendations are a subject of deliberate focus, it is our opinion that more needs to be done to formalise the follow up process. We recommend that IMG Recommendations be formally considered and adopted as appropriate at the Joint TAS/Harmonisation Secretariat. That way the TAS (or JAS) Report can devote a separate section on implementation of IMG Recommendations and Issues.

⁴ The IMG team comprised four persons: Prof. Samuel Wangwe (Chairperson), Mr. Dag Aarnes (Consultant/Senior Economist, Partner Assist Consulting A S), Prof. Haidari Amani (Executive Director of ESRF) and Dr. Alison Evans (Independent Consultant and Associate of ODI, London - who made her contributions through commenting and contributing to drafts at all stages of this work). In carrying out research for this work the team has been assisted by Mr. Deo Mutalemwa, Ms Kate Dyer and Ms Moorine Lwakatare.

2.0 GOVERNMENT LEADERSHIP AND OWNERSHIP IN THE DEVELOPMENT AND POLICY PROCESS

2.1 Ownership, Leadership and Partnership: Clarification of the Concepts

The ownership principle adopted in this Report is that Tanzania and not donors should be in charge of its development: should be able to identify its development goals, and formulate its development strategy. Then the donors should be invited to support the national development goals and priorities. The concept of ownership and country leadership that is adopted in this report is consistent with the one used in OECD (2003)⁵ and World Bank (2003)⁶. Taking ownership and country leadership seriously implies, among other things, determination of aid modality and form of dialogue that would be in Tanzania's interest and best meets the country's requirements. Strong national ownership, however, cannot be confined to the government circles alone. National ownership of development policies must mean systematic, broad-based stakeholder participation, under government leadership, including civil society, private sector and local governments, with involvement of the Parliament. This implies that the process and strategies developed are to enjoy wide public support from top political leadership and intellectual conviction by key policy makers and strong links to institutions.

Donors are not expected to be passive in this context, but they are expected to change their policies and practices to give more space for domestic initiatives and to facilitate progress towards national ownership by encouraging and supporting processes of analysis and discussion that leads to more informed and balanced domestic decision making.

Consistent with national ownership, country-led partnership represents a paradigm shift towards putting Tanzania in the driver's seat. Key instruments for fostering effective country-led partnerships include country-led coordination mechanisms, alignment of donor support to country strategy and priorities, more effective modes of aid delivery and harmonisation of donor practices and procedures. This approach is meant to reduce significantly the asymmetrical relationships and tensions in the donor-led approach. Crucial features in realising country-led partnership include ownership of the design of the development plan and programmes, strong government leadership and capacity and clear institutional and organisational and information systems for aid coordination. Country-led partnership is more likely to occur where partnerships are institutionalised to strengthen civil society, the private sector, institutions and governance structures (World Bank, 2003).

One survey (reported in World Bank, 2003) identified the lack of alignment of donor country assistance strategies with country development strategies and priorities as the number one burden to the 11 recipient countries that were surveyed by Amin and Green (2002)⁷. In the context of Tanzania, this

⁵ OECD: Harmonising Donor Practices for Effective Aid Delivery. A DAC Reference Document. DAC Guidelines and Reference Series. OECD, Paris, 2003.

⁶ World Bank: Toward Country-led Development: A Multi-Partner Evaluation of the Comprehensive Development Framework: Synthesis Report. Washington DC, 2003.

⁷ The Survey was conducted for OECD -DAC Task Force on Donor Practices.

challenge is taken up in the context of scaling up TAS towards a Joint Assistance Strategy (JAS). This issue is addressed in greater detail in the subsequent sections.

The front-line initiatives in ownership, alignment and harmonisation of aid in Tanzania are now getting international backing as evidenced in the Paris Declaration on Aid Effectiveness of the Paris High-level Forum of 2nd March 2005 in which partners countries and developed countries made specific commitments with target dates for achievement in favour of these objectives. The derived tasks and goals for Tanzania's implementation should be reflected in the JAS.

2.2 Tanzania Assistance Strategy

The GoT launched TAS as a coherent national development framework for managing external resources to achieve the stated development objectives and strategies. TAS represents the national initiative to restore local ownership and leadership in promoting partnership in the design and execution of development programmes. TAS has been followed by an action plan from 2002/03 which has set out more practical steps for implementation in four areas: promoting GoT leadership, improving predictability of external resources, increasing capture of aid flows in the government budget and improving domestic capacity for aid coordination and management of external resources.

The TAS process has continued to be institutionalized at all levels of GoT and DPG. The implementation of TAS is now supervised by the Joint TAS/Harmonisation Group and Joint TAS Technical Secretariat, both draw membership from sector ministries, POPP, VPO, MoF and DPs and are chaired by the Ministry of Finance. While the TAS Secretariat has been meeting often (7 times during 2003/4), the TAS/Harmonisation Group (a larger body tasked with oversight of the TAS process) did not manage to meet as envisaged. Instead, the Rationalisation High Level Forum which met in September 2003 helped to fill this gap. However, this in itself is an indication that there is need to review the structure of TAS. The issue of governance of TAS and how progress to the next stage can be charted out and managed is taken up in the discussions on Joint Assistance Strategy (JAS).

We commend the efforts made in the preparation of the TAS Annual Implementation Report FY2003/04 for its clarity on issues and rich content. We would have liked to see more systematic production of annual action plans as bases for the TAS annual reports.

2.3 Progress made in achieving Leadership and Ownership

It has been acknowledged that GoT leadership has been strengthening in many respects. Evidence is also seen in the higher level of assertiveness, better organization and better preparation of policy documents. GoT leadership of the reform process, development agenda as well as the aid relationships has improved. MoF in particular has become more direct and more assertive in asking DPs to be committed to the national development priorities. Government leadership is evidenced by enhanced level of understanding of issues especially MoF clarity, coherence and guidance to sector ministries. The level of ownership is high in respect of MoF but for most sector ministries the level of ownership is still low. Leadership in dealing with local governments is still not good enough as it is not well defined in practice. **The role of Parliament in its involvement in policy processes and results evaluation is still**

unclear: Parliament seems to be consigned to just approving the budget and the legal instruments for policies, if their legalisation is required.

The most notable progress in the reform process is in the arena of macroeconomic management, where leadership and improving relations with IMF and World Bank have been observed. For instance, the IMF has been supporting the reform agenda through PRGF. The recent decline of PRGF from \$60-70 million per annum during 2000-2003 to \$15 million per annum is one indicator of success whereby Tanzania is graduating from special balance of payments support towards a more sustainable situation. The core of reforms in the last 3 years has been fiscal management reform, which has been characterized by improved domestic revenue mobilization and hardly any domestic borrowing. The PRGF is now preoccupied with domestic resource mobilization, enhanced financial sector reform and improvement of the business environment. Support is likely to shift more into institutional support and TA.

Ownership has improved as evidenced by the fact that for the past 3 years the GoT has been drafting the letter of intent on its own. Transparency has also improved as evidenced by putting the letter of intent on the web. The emerging challenge is that of managing too many processes to avoid being overloaded, as dialogue moves towards GoT leadership.

Progress has been made in terms of leadership and ownership in developing a clearer view of its role in the development agenda as has been defined in the second generation of PRS (MKUKUTA). Compared to the first generation of PRSP, the formulation of MKUKUTA has been more clear, more consultative and participative with greater demonstration of GoT leadership than the practice in the past, though this is not broad-based across the MDAs. The preparation of MKUKUTA has demonstrated a greater level of ownership in its formulation with DPs given the opportunity to make comments. These comments have been coordinated better than before. Results orientation has been endorsed as the approach of MKUKUTA. The challenge is to show evidence that implementation is in progress from input based towards output-based results.

GoT leadership and ownership should continue to be consolidated. GoT should clearly decide on the kinds of signals that should be sent out to DPs. Challenges of trust must be addressed and dialogue mechanisms at the political level need to be strengthened and their links to technical level dialogue be better articulated. Donors need to see that their gradual withdrawal from the policy space is an integral part of building stronger leadership and ownership by GoT.

Meetings led by GoT have been more systematic than before but they could have been more effective if the GoT had organised them in a way that they are less sporadic and more predictable. The effectiveness of the GoT-led meetings and other initiatives has been reported to have been rendered less effective by short notice, lack of clarity and formalisation of the rules of the game and absence of key government officials when they are needed to clarify positions. Concern was expressed from the DP side that policy dialogue is sometimes frustrated by weak participation of GoT in policy dialogue. The experience from the annual PRBS review suggested that technical groups often lacked sufficient attendance by GoT officials at a time when the GoT is expected to be in the driver's seat. It is

recommended that the whole annual cycle be embedded and institutionalised so that all partners are prepared and tuned to fitting their activities into the annual cycle.

- While leadership by GoT is improving, there are four concerns that need to be addressed: First, the number of active change agents within government is still quite small making the process rather fragile. The capacity to handle new initiatives such as global funds, MCA and other large projects and ensure leadership is a major challenge on GoT leadership and in meeting the harmonization agenda. It is recommended that the GoT should prepare and issue clear guidelines on how to negotiate for these initiatives and how to provide leadership in managing them within the government budgeting machinery.
- Second, the spread of GoT leadership within GoT and across ministries is still narrow. Some ministries have rather low level of awareness and capacity to play their role as leaders in policy dialogue as will be seen in the case studies on education and agriculture. At the level of some sectors Government leadership has not been strong. For instance, some sector policies have emerged without going through policy dialogue. Policy actions have emerged without being subjected to open dialogue with stakeholders (e.g. fertilizer subsidy). This point is taken up further when discussing sector case studies.
- Third, the question of incentive structure should be addressed to underpin efforts in enhancing harmonization and ownership. The incentive structure considerations should address pay reform, the place and role of workshops and the power and resources that are often associated with projects and parallel programmes. This clarification would even shed light on the kinds of comparative advantages of aid modalities that need to be acknowledged as well as those that need to be created and developed over time in order to cope with the new conditions.
- Fourth, there is the issue of policy coordination between two parts of the Union. At the political level there is a mechanism for coming up with manifestos of political parties. For instance, the ruling party, CCM, has formulated a common party manifesto shared between Tanzania Mainland and Zanzibar. However, at the next level where technical work is done and elaboration of strategies takes place, the policy coordination system has not been functioning in unison. Development strategies have been formulated at different times without adequate coordination. For instance, the PRS process has not been fully coordinated at the government level. The formulation of national priorities and processes in Tanzania Mainland and Zanzibar have not been harmonised. It has been reported that the PRS processes in Tanzania Mainland and Zanzibar are in the process of being harmonized which also implies harmonization of monitoring systems and public financial management systems. Alignment of ZPRP and MKUKUTA deserves high priority. Two recommendations are made in this context:
 1. It is recommended that a high level mechanism for forging linkage and harmonization of the policy-making processes in the two parts of Tanzania be established and modalities of coordination be specified. This mechanism should start with harmonizing national priorities in Tanzania Mainland as expressed in MKUKUTA with those of Zanzibar as expressed in ZPRP

2. It is also recommended that the JAS should contain a clear definition of how resource allocation and the relationship with DPs should be harmonized between the two parts of Tanzania. The formulation of JAS should ensure that harmonization occurs. In establishing such a mechanism, reference should be made to, and lessons drawn from, mechanisms which were existing prior to 1995. During that period resources were channeled through the URT and a way was found to channel resources to both Tanzania Mainland and Zanzibar.

2.4 Progress with Harmonisation and Alignment

Progress has been made in rationalisation and harmonisation of processes with a view to reducing transaction costs. During 2002/03 a study was launched by the TAS group to identify the scope for rationalising and harmonising the cycle of existing processes and consultative mechanisms. Discussions of the report of the study revolved around five areas.

- § Rationalising linkages and timing between the budget cycle, PMS and PER processes.
- § Harmonisation and further coordination of key economic related processes such as PRBS, PRSC, PER and PRGF.
- § Strengthening the linkages between macro and sector processes. Steps were taken to ensure that the PER process was underpinned by sector working groups and thematic groups. The annual PER process has continued to evolve into a key process used by all stakeholders to review budget performance in respect of its execution and resource allocation and providing inputs into budget planning and management during the coming year.
- § Rationalising DP processes within the PRS/budget framework with a view to reducing duplication and the associated transaction costs.
- § Steps have been taken to make the Consultative Group meetings more efficient and capable of maximising synergy with on-going policy processes.

Alignment of DP calendars to the national calendar has improved through the PER/MTEF processes and by drawing a calendar of a rationalised cycle of policy mechanisms and consultative processes. The calendar is increasingly being adopted. Progress in this matter is bringing the timing and output of all processes in line with the PRS and budget cycle. More specifically, "quiet times" have been identified with the aim of providing GoT with adequate time to concentrate on preparing the budget and participation in the Parliament budget sessions.

Some DPs have felt that quiet times are too long and should be revisited. It also depends on how they have been utilized. The other opinion is that it may be too early to come up with concrete conclusions on quiet times (April-August) at this stage. Government and DP representatives contacted during preparation of this study confirmed that by and large the quiet period rule is observed. DP's tolerance

for quite times is likely to be correlated to their perception of how fruitful and meaningful cooperation mechanism are for the rest of the time.

Monitoring and evaluation is beginning to be institutionalized. However, GoT needs to define more clearly what is meant by evaluations and for what purpose they are made. In some cases annual reviews are so frequent or are so delayed that learning from those evaluations and reviews is not encouraged. In addition, various systems of monitoring and evaluation have yet to be harmonized. Currently, the Ministry of Finance and President's Office Public Service Management are working towards harmonization of their M&E systems.

Progress has been made in the use of common reviews frameworks such as the Performance Assistance Framework (PAF), which has increasingly been drawing from policy reforms and national priorities and policies contained in the PRS. Early completion of common reviews of frameworks such as PAF prior to the start of the FY has enhanced predictability of resource flow as potential hitches are sorted out early enough to allow smooth resource flows. The move away from rigid and one-sided (donor-driven) conditionality towards the adoption of jointly agreed prior actions that are an integral part of the government's reform programme has been consistent with promoting GoT ownership and leadership as well as reducing uncertainty in external resource inflow. Policy dialogue has made progress especially in terms of architecture but there is a challenge of PRBS vs. PAF in terms of reconciling national priorities and external conditionalities.

2.5 Moving from TAS to JAS

The Joint Assistance Strategy (JAS) is planned to move TAS to a higher stage of attaining national ownership and leadership in the development process, reduce transaction costs by enhancing harmonisation and alignment to national priorities and national systems. JAS is intended to be a broad framework for all partners (domestic and external) to operate at a higher level of commitment to the principles of best practices in development cooperation as stated in TAS and hopefully to be more concretised in JAS. It is envisaged that JAS will replace individual donor country assistance strategies as one way of reducing multiplicity of donor processes and enhancing aid coordination and promote collective support to Tanzania consistent with its national development goals and priorities. JAS is expected to contribute to consolidating and institutionalising current efforts towards harmonisation, alignment and managing for results.

In the proposed JAS framework, a clearly defined mechanism of how the GoT as a leading actor should be interacting with other partners such as the civil society, the private sector and development partners. The challenge is for GoT to be clear about the rules of the game, priorities and how dialogue should be conducted.

The shift towards joint assistance strategy (JAS) is being supported and consultations are being made with key stakeholders. The Ministry of Finance has taken the initiative to discuss the drafts of JAS openly. While TAS has taken a more or less voluntary stance in its approach, JAS is going to take a more definitive stance in outlining government principles in a framework that DPs are required to align

to. For instance, JAS is very firm in requiring all donors to channel all information on all their resources flows through the Exchequer.

The GoT has continued to avoid saying NO to DPs who may be operating against the spirit of TAS. The perceived risk that DPs will be scared away by the GoT being firm is not based on any empirical evidence. In our judgement, if the GoT is clear about the national objectives and priorities, many donors will agree to operate according to national objectives and priorities considering that such a requirement is consistent with the Rome Declaration to which the donors are signatories. In that case saying NO to donor practices which are not consistent with national objectives and priorities is not likely to scare away DPs and aid flows as often perceived by most GoT officials. However, saying 'no' also requires GoT to feel reasonably confident about its own prioritization process. This implies that an internal job will have to be done to ensure that the prioritization process across government is respected. Prioritisation that is grounded in the political system and other local constituencies are taken on board is more likely to be respected and defended constructively.

The evolution of JAS should take into account key issues such as comparative advantages of various DPs, separation of TA from simple financial resource allocation and take up TA based on a single assessment framework. There is the challenge of the Management of risks and expectations, identifying win-win situations and reducing transaction costs. The challenge is to manage risk and mitigate its effects. Some of the mitigating factors could include enhancing dialogue, making the necessary adaptations and adjustments on the capacity and orientation of the country offices. In view of these observations, the following recommendations are made:

- (i) The risk of reduced aid needs to be managed objectively including the willingness to consider various 'exit' scenarios more explicitly.
- (ii) Development partners should restrain themselves from giving government officials subtle messages that they could reduce aid if their proposals are not accepted. DPs should make efforts to give space to Tanzanians to make decisions based on ownership and leadership as set out in the Monterrey and Rome (now Paris) Declaration.
- (iii) The GoT should develop common rules and modalities of operation and let DPs who want to conform do so and those who do not want to conform may be allowed to stay out until such time that they are ready to rejoin. It should be appreciated by all partners that the cost of disruption of the national priorities and national processes with the associated high transaction costs may be higher than the loss of resources resulting from staying out. In our opinion, even in the worst scenario, where aid flows are reduced for this reason, still the lower level of resources is likely to be more effective as distortions from diversionary aid flows are reduced and transaction costs are reduced. In fact, the most likely scenario is one in which some donors may withhold support temporarily or in the short run. A most likely scenario is one where the donors who withhold resource flows just for that reason will come back after they have considered the implications of staying out. We are convinced that withdrawal for that reason is no longer credible and is not likely to be supported by their capitals as legitimate considering that those capitals signed the Rome Declaration which articulates

- (iv) Harmonization and alignment principles and shows explicit recognition of the importance of country ownership and leadership in the development process, the principles which have been reaffirmed strongly in the Paris Declaration.
- (v) In order to mitigate the risk of a loss of aid resources in the short term, it is recommended that the GoT should solicit agreement with the more supportive donors that they would agree to compensate Tanzania for the loss of aid flows for reasons of promoting ownership and leadership.
- (vi) The JAS should also clarify the role of the IMG, as external independent monitoring and evaluation instrument.

It has been cautioned that joint strategies such as the JAS can suppress important differences of opinion and approaches, implying that mechanisms for settling and harmonising such differences would have to be in place or if they exist they would need to be strengthened. This is not a minor concern, especially for some bilaterals, MFIs and NGOs. The need to strengthen dialogue mechanisms in support of a JAS is crucial, but it also relates to internal incentives for harmonization and alignment within donor agencies and arguable within NGOs. Many are committed rhetorically, but have incentive systems of their own that undermine commitment to more radical approaches like a JAS. Donors wanting to engage in a JAS need to re-examine critically their own incentives systems and internal political drivers simultaneously. In this respect, GoT, especially some line ministries will also have to revisit the incentive structures which draw action against harmonisation.

The JAS should clarify the process of transition under which DPs that are slow to join JAS but are supportive of its principles should be accommodated and encouraged so that they can overcome home institutional or political rigidities, whilst not holding back those that are ready to move forward.

2.6 Leadership and Ownership are Consistent with Reduction of Transaction Costs

It might be worth noting that there is reason to believe that our assumptions about how to reduce transaction costs (by switching aid modalities in particular) are not very well evidence based (Killick, T. Macro-level evaluations and the choice of aid modalities. Paper presented at OED Conference on Evaluating Aid Effectiveness 2003). Also practical experience tells us that in the early phase of the 'new aid agenda' transaction costs may actually rise rather than fall for at least two reasons. First, in the initial period the new and the old aid modalities will coexist for some time and during this period transaction costs may rise. The rate at which such transaction costs will decline will depend on how soon the old modalities can be phased out and be fully replaced by the new modalities. Second, the new modality may require new capacities which may take some time to be put in place. During this learning period, the transaction costs may rise before they begin to fall as the new capacities are being built. For these reasons, reaping the gains of lower transaction costs may actually take quite a time. Tanzania is well on track, but expectations as to how far and how fast transaction costs decline with innovations such as GBS and the JAS, need to be kept under constant review. In this regard, two recommendations are in order:

- (i) Conscious action needs to be taken to minimize the period over which parallel systems (the old and the new) will continue. Capacity building initiatives should be introduced to manage the integration of new systems.
- (ii) Lessons need to be drawn from the experience of GBS and PRBS showing that GoT leadership is the single most effective way of reducing transaction costs. When it is still necessary to use a multiplicity of aid modalities (DBS, baskets, projects and TAs), it befalls on the leadership to indicate the right modality or blend of modalities to apply in each financing operation and to insist on its choice and say NO when it is warranted. This means priority should be given to putting in place the right leadership to supervise and manage harmonization.

2.7 Governance and Other Cross-cutting Issues: Mechanism for Dialogue

Governance is a major area of concern. One priority area, which is rated as a high-risk area, is corruption and the need to formulate action plans which can lead to more concrete action. The dialogue on transparency and accountability has been dominated by concerns over corruption. A recent report on the State of Corruption in Tanzania (2002) found that the emphasis on anti-corruption strategy has been on laying the institutional foundations of fighting corruption. The level of corruption was found to be declining in general and in specific sectors. However, two other observations have been made. First, it was also acknowledged that important aspects of the legal framework had been addressed and that basic Acts had been passed which are useful for fighting corruption. But implementation and follow up was found to be lagging behind. Concrete steps have not been taken to make sure that institutions function as they are supposed to function. Second, there is the possibility that the GoT is actually doing more to curb corruption than is being reported. Publicity and communication of what is being done to curb corruption is limited. There is need for further work on publicity and work in the regions and other local levels. With better publicity and communication, more could be said to report on steps being taken to curb corruption. One way of publicising what is being done is through annual reports on corruption. Such an initiative was introduced once in 2002.

On the side of DPs, improvements in governance have also been acknowledged. In this regard, the DPG has agreed to establish a code of ethics for donors, with a view to improving governance, transparency and accountability in aid delivery. These will be reflected in the Joint Assistance Strategy (JAS). The issue of governance has received prominence in MKUKUTA. It is one area which merits legitimate support from DPs as they impact on the environment for productive activities and social welfare. This suggests that as aid relations improve more regularized dialogue is needed on corruption and on high-level cross cutting issues which cannot be adequately handled at the level of sectors. In some cases the lack of opportunity for dialogue when needed has become a source of frustrations. In particular the lack of opportunities for higher-level dialogue has raised concern. One important mechanism that had been set up to carry out high level discussions between GoT and the DPs is the Development Cooperation Forum (DCF) under the leadership and chairmanship of the Chief Secretary in the President's Office. Many DPs have expressed concern that the DCF has not been functioning as it should. Meetings have been infrequent at the risk of missing the opportunity to exert GOT

leadership and to address and clarify key issues arising between GoT and DPs before they get to crisis proportions.

Consultations on the future of the DCF have revealed that it has been agreed that the DCF has been reconstituted and a supportive structure, the technical committee, has been formed. The DCF which comprises representative ambassadors will be preceded by a Technical Committee consisting of technical experts from both sides (GoT and DPG), i.e. senior public servants and heads of development cooperation. The governance technical working group has formed a Task Force. The technical group meetings are expected to address more substantive and technical issues and inform the ambassadors who will meet in the DCF chaired by the Chief Secretary. The technical level meetings will basically inform the DCF on important aid and cooperation issues, while not hijacking the really important political role of the DCF. The Technical Group will ordinarily meet before the main DCF meeting. The DCF could play the role of looking at the development partnerships as a whole and discuss key issues, which cut across.

Considering the good progress that has been made towards reconstituting the DCF, it is recommended that it proceeds to meet and address high level governance issues and any other high level cross-cutting issues and find a solution for them before they grow to unmanageable proportions. That way its functioning would have the effect of reducing the chances of donors withholding support for reasons of disagreement and that way enhance the predictability of resource flows.

3.0 OWNERSHIP, POLICY DIALOGUE AND HARMONISATION WITH SECTORS AND LOCAL GOVERNMENTS

Aid relationships in sectors and local governments have taken a dimension which warrants separate consideration. The relationships bring together the role of central ministries, line ministries and Local Government Authorities (LGAs). This chapter addresses the status of implementation of the Decentralisation Policy (1998) and the relationships between LGAs and line ministries on the one hand and the aid relationships on the other. The chapter proceeds to address sectors, the evolving relationship to central ministries and donors. Two sectors are taken as case studies and the two case studies are used to make some reflections on SWAps.

3.1 Local Development Management

3.1.1 Progress in Decentralisation

Decentralisation policy of 1998 was meant to transfer more power and facilitate greater participation on the part of LGAs and communities. The 2002 IMG Report urged GoT to press ahead with decentralisation (Recommendation 14)... The finding of this 2005 report is that the process of decentralisation (by devolution) is still on-going. Significant progress has been made over the past two years in the competence and service delivery role of local governments in Tanzania (PORALG, 2004)⁸.

So far, much has been achieved but many parties involved feel that the pace has been too slow. Three reasons have been given for the slow pace in consolidating decentralisation by devolution (PORALG, 2004). First, internalisation of decentralisation policy remains tenuous in Tanzania with Central ministries continuing to seek direct control over LGAs. Second, the fact that decentralisation by devolution is essentially a political project involving the transfer of power has yet to be sufficiently internalised. Third, Sector ministries see decentralisation as a loss of their power and authority over resources and services.

At district level some progress has been made in district restructuring and planning. First, the setting up of the managerial organisation, allocation and training of local LGA staff and tax streamlining are being carried out. Second, district planning has become better institutionalized with the adoption of the O&OD methodology. Planning processes have been installed in the districts and the LGR process using zonal training teams is reaching to lower levels of local government.

However, district planning is still weak and many officials in government and the donor community believe this limitation will remain until the capacity of PORALG is considerably strengthened. Two further gaps still remain. Firstly, relationships between districts and sectoral and central ministries are still evolving in the decentralization process. Also relationships between districts and villages in terms of planning and resource allocation have yet to be adequately addressed. Secondly, the planning

⁸ PORALG.Local Government Re form Programme: Joint Government -Donor Review,. Final Report. Dar es Salaam 1st December 2004.

participatory methodology of O&OD is not pan-territorially or systematically applied as yet. Most district plans are still essentially budgetary request documents with little or no analysis on cross-sector and cross cutting issues as well as interpretation of national policies and strategies to reflect specific district environments. The PRS implementation process seems to be less articulated at the district and lower levels.

Various stakeholders interviewed during the preparation of this Report, however, are hopeful that the current institutional framework put in place to supervise and direct local government will further be streamlined and better coordinated. The duality between the formal and informal economic activities continues to raise concern. LGR can help to break this duality and give high priority to development of rural areas where the majority of the poor live.

The dependence of LGAs on resources from the Central government seems to have retrogressed rather than made progress in the last two years. In June 2003 the Central Government decided to abolish several local taxes which used to generate revenue for the LGAs. This intervention coupled with non-compliance with the agreed allocation formulae for health and education transfers has resulted in reduced LGA fiscal autonomy and the viability of the LG financial system (PORALG, 2004). This problem needs to be addressed with a view to enhancing commitment of Central Government to fiscal decentralisation by finding ways of restoring and facilitating growth of autonomy and independence of LGAs in respect of revenue collection. It is expected that the results of a study to be completed in 2005 should throw some light on possible options in this direction.

3.1.2 Ownership and Harmonisation of Aid Modalities

LGAs face the challenge of unharmonised transfer and reporting modalities for the various basket funds, TASAF and emerging sector development grants (PORALG, 2004). A coordinated approach is needed to address this challenge. The process of establishing an equitable and transparent system for recurrent grants from central government that is formula based is nearly completed and the system seems to work more or less satisfactorily. However, the criteria for government development grant allocation had yielded disturbing results on equity considerations. Equally, external resources are overwhelmingly area-based and overly skewed in their geographical coverage (e.g. about 30 donors were operating in Kilosa while a scanty number were supporting development in Kisarawe or Mpanda.)

SWAPs and baskets are unlikely to work smoothly for decentralization by devolution unless they are aligned to the district planning and budgeting processes.

In some cases LGA activities are integrated into the existing government planning machinery but in other cases projects are implemented through parallel structures, which have tended to undermine sustainability of the projects. In some cases it was found that there was proliferation of committees, each suiting specific requirements of each development partner/institution. Often these committees are not institutionalised within the government machinery. In some cases, Project Committees operate quite autonomously of the village leadership (UN-JSR, 2005)⁹.

⁹ United Nations Joint Strategic Review Report, February 2005.

Decentralisation by devolution presupposes that programmes and plans originate from districts rather than from ministries. For instance, the MAFS has been under pressure to adopt the approach of working on the basis of district plans. Even though many DP-funded programmes are supporting ASDP objectives, they are restricted to few locations of preference, use independent PIUs and bypass the exchequer. It is recommended that while promoting decentralised aid dispensation, DPs should respect TAS guidelines on using the exchequer system at best or at least providing transparent information on planned as well as disbursed resources. Different modalities of supporting DDPs should be avoided.

Projects at district level have sometimes been short of achieving ownership because roles of various actors (3 ministries for example supervise a substantial part of agricultural activities) were not defined clearly from the beginning of the project. This is a reflection of local government reform being incomplete, still in transition or inadvertently undercut by other new policy processes.

Aid channeled to districts by specific donors is still problematic for other reasons too. For example, there are only two sector strategies that seem to be elaborate and systematic in rolling out outreach arrangements for operation and financing (health and education).

Progress has been made by the government in setting up the Local Government Support Programme (LGSP) with a capital grant component fund (CGF) as well as a LGA Capacity Building (CB) and the grant formulae have recently been refined. A number of donors have indicated support to the LGSP.

An issue of serious concern is that in spite of setting up the LGSP, there are some DPs who are still continuing to support separate area-based projects despite a general understanding reached to phase them out. In fact new large programmes are still being prepared as area or district based that will continue to bypass the government exchequers system. About 20 programmes operate in Agriculture. It is hoped that the implementation of the sector wide programme that has been started will link national level activities to local level activities. However, the challenges of implementing SWAps as pointed out in the subsequent part of this chapter will have to be addressed.

3.2 The Case of Education

3.2.1 Relationships between the Ministry and Donors: Challenges of Leadership, Ownership and Harmonisation

It is acknowledged that there has been dramatic improvements in the primary education sub-sector through the Primary Education Development Programme (PEDP). This was accompanied by very significant increases in donor funding.

We note however that relationships between government and DPs have over the past few years been rather poor. Acrimony, particularly over the release of funding by the pooled fund partners and reporting of it, have led to very unpredictable financial flows to district and school levels, with damaging effects on the quality of education. However, recently some progress has been reported in terms of improving GoT-DP relationships in education. For instance, selection of TA has been less tied in Education. It was reported that criteria for the selection and recruitment of TAs have been developed.

Joint reviews have been instituted and the system has been aligned to one agreed audit rather than several.

Basically, however, both sides have expressed discomfort with the status of aid relationships in the sector. Both sides (GoT and DPs) are dissatisfied with progress being made. On the one hand, MoEC has expressed the feeling that DPs were too demanding, intrusive and interfering and often raising new questions after the MoEC had done what they saw as their best to respond to previous questions. On the other hand, the DPs are of the opinion that MoEC was not putting adequate attention to defining the direction of the sector and to clarify policies governing the development of the sector. An independent review of the education sector activities is undertaken annually. However, the DP side is of the opinion that little is done to implement the results of the review. This has led to question the capacity MoEC in matters of policy direction, policy dialogue and providing policy leadership of the sector.

A recent review supports the suggestion that the main problem lies in the capacity of MoEC to orient its main thrust and capacity towards policy and charting out a clear direction for the sector (PEDP, 2004)¹⁰. The study has cited encouraging progress in education especially at some local levels but raised questions about the capacity of the MoEC to organize and manage the development of the sector at the central level. However, there is a contrast between positive developments at school and community level and perceived levels of dysfunction at the centre. According to that review of PEDP, some problems at the MoEC, such as the lack of coherence in strategic planning, management and accountability at the level of the Ministry (MoEC), have contributed to the problems of disruption of resource flows into the sector. The ambiguity about vision and direction breeds differences in expectations. The case of education and the way DPs and GoT have been at loggerheads demonstrates the challenge of different expectations and perceived visions on the education sector policy, strategy and expected outcomes.

What is questionable is the approach that has been adopted by donors in trying to fill this capacity gap. The weaknesses in capacity for leadership in matters of policy dialogue for the sector has created what donors see as a void which has been filled in rather inappropriate ways. The donors resorted to micromanagement which is not a substitute for capacity building in effective leadership in sector policy dialogue. It takes time for capacities to be built but this fact has often been overlooked. The deficiency in the capacity for providing leadership in policy dialogue breeds misunderstandings arising from different expectations. It is recommended that the capacity deficiency be addressed to enable the sector policy challenges to be addressed and realise resource allocation that is consistent with an effective strategic plan for the sector.

Donor coordination becomes a challenging issue when a sector is confronted with challenges of dealing with too many DPs when it has modest capacity for policy guidance. This is a sign that the SWAp is not working well as yet. The relationship between SWAp (which did not develop into a full SWAp) and GBS has taken a new dimension as the experience of education has shown. Education SWAp was implemented with basket funding developed in ways which have not yet resolved problems of coordination and mainstreaming. This situation is reported to have been aggravated by the multiplicity

¹⁰ Joint Review of the Primary Education Development Plan (PEDP) - Final Report by consultants dated October 2004

of DPs and their unharmonised requirements. Management and coordination of activities under PEDP and its relationship to the rest of the activities in MoEC leave much to be desired according to the PEDP Review. The review has reported that PEDP co-coordinators are turning into project managers than was originally intended (PEDP (2004). Another Report (2003) (cited in PEDP, 2004) has pointed out that line directors, MoEC especially, are effectively excluded from technical engagement with PEDP. The report has also observed that no deliberate action has been taken to mainstream PEDP into the activities of the sector. The report pointed out that the role of PO-RALG has not been effective either. These observations indicate that the outstanding problem is that PEDP is not yet well integrated into the government machinery and systems in the education sector in contrast with the OECD/DAC Harmonisation Guidelines. This suggests that the SWAP modality in the case of education has so far made little headway to do business unusual rather than as usual especially on alignment and harmonisation.

One of the major reasons given for a shift towards a sector wide approach was that the high number of projects within MoEC was creating in effect a parallel structure of TA outside the mainstream government budgeting, decision making and administration structures. One of the largest of these projects was the huge District Based Support to Primary Education (DBSPE) which at its height worked in over 70 of Tanzania's 120 + districts. The decision was made in 2000 that all projects should be mainstreamed partly in order that more resources should be captured within the main government budget. This has to some extent been achieved, and very large projects like DBSPE have slowly been wound down. However, even now, there are an estimated 110 projects still on the books, with an average size of \$906,000¹¹. New projects are also being talked about, for ICT and special needs education, even from LMG donors who are supposedly those most committed to moving towards budget support. Some of these plans are in response to direct requests from government for project support, which tends to imply also that MoEC ownership of the sector wide approach concept is not strong.

The parallel process comes from the fact that the PEDP planning and reporting processes duplicate government ones. One donor sector specialist noted that after having spent hours trying to connect PEDP activities with government votes and sub votes, it became apparent that MoEC had provided data to MoF in high level of detail, including GSF codes and in line with MTEF, but that this information was not the same as the information given to donors, leaving them confused and angry. It appeared there were 2 sets of plans and budgets in circulation serving different needs. Auditing is another parallel process which causes frustration this time to government. Government auditors are generally respected and responding to their queries is a priority. Having to respond to another set of queries, this time from Deloitte and Touché, doubles the work load, and does not necessarily have any linkages back into strengthening government systems. Under these conditions it very difficult to link the budget to strategic activities for the sector.

¹¹ Mapping Exercise of Interventions of the Likeminded Development Partners in the Context of the Tanzania Joint Assistance Strategy (JAS), Commissioned by the Embassy of Ireland (on behalf of the LM Group) Dar es Salaam, October 2004.

The pattern of resource allocation has not reflected the emphasis placed in 2003/4 on improving quality in PEDP. Although plans and budgets were drawn up to reflect this, but the Annual Review notes that whilst emphasis in terms of planning was put on quality enhancement, in terms of disbursement there has been little deviation from previous spending patterns (PEDP, 2004)

- Apart from policy capacity deficiency in MoEC, forces from the donor side have contributed to aggravating the situation of lack of coordination. The position of the smaller contributors – who feel that their distinctive voice will be lost in the context of a larger and more comprehensive contribution to Government of Tanzania have not been working towards coordination. For them, the best way to maintain their individual ‘leverage’ is through projects. Quite what they want to achieve through this individual leverage is not articulated, beyond general references to ‘sector dialogue’. The danger is that this wish for ‘dialogue’ too easily becomes the use of dialogue to press pet concerns, and puts donors into the position of being lobbyists for a particular issue, or using technical advice as de facto conditionality, since the dialogue is so closely tied to provision of funding. Insufficient attention is often given as to why those concerns – are not coming up through local institutions, and how far pursuing these concerns could be blocking genuine Tanzanian ownership of the education and other reforms.
- In this respect, the robust engagement of civil society organizations in the various education dialogue processes could potentially deepen Tanzanian ownership, counter overdependence on donors and help ‘break the logjam’ between MoEC and DPs by bringing fresh and locally grounded perspectives to the table. However, while education NGOs have been involved through TEN/MET- several complained that the consultation process is not effective; for example it loses attention on strategic issues, rarely follows up agreements made or key decisions are often not made in a transparent manner, thereby undermining integrity of the process.

3.2.2 Resource Allocation, Accountability and Predictability

The MoEC seems to be convinced that a lot of time was lost trying to agree on how to proceed and funds have been withheld for minor points of disagreement. It has been felt that DPs keep on shifting the goal post. This reflects the failure to agree from the beginning on basic points of policy for developing the sector.

Releases from both sector support and pooled fund have been consistently problematic and dogged with uncertainty. The sector support is a loan from the World Bank; once government has fulfilled the ‘prior actions’ laid out in the loan agreement, tranches of funds are released directly to exchequer. According to the 2004 PEDP Review, the sector support tranche due by June 2004 still had not been received as of October. The following IDA flows are recorded:

Table 1:

Institution	Year 2002/03		Year 2003/04		Year 2004/05
	Budget	Actual	Budget	Actual	Budget
	Tshs. Billions	US \$ million	Tshs. Billion	Tshs. Billions	Tshs. Billions
IDA	48.1	55.95	87.23	56.3	26.09

Source: PEDP Review 2004, quoting MoEC/PORALG records

The Pooled Fund arrangement has two phases of releasing funding into the government financial system. The first involves individual donors releasing funds into a Holding Account on the basis of conditions stipulated in the MoU and individual cooperation agreements with the government of Tanzania. The second phase involves release of funds from the holding account into treasury, after all partners are agreed that the MoU conditions – audits, reports and so on described above - have been met.

In the words of the review: The pooled fund manifests characteristics of uncertainty on both issues of release of funds to the holding account and clearing of funds to the exchequer account. The pattern observed in year 2002/03 is repeated in year 2003/04. Apart from there being no regular release of funds on a quarterly basis, the release of funds available did not observe quarterly needs.¹² In the past there has been no disbursement for some quarters due to poor audit reports. The release of funds to exchequer bears little relationship to how much funding there is in the holding account. When more is approved or endorsed than is actually in the account, it adds to frustration on the part of government, that they are being asked to bear heavy transaction costs for insufficient benefit¹³.

The result of these problems is that the timing and level of disbursements bears little relationship to plans prepared by the end users – ‘unpredictability of funding flows, irregular timing of disbursements and uncertainties over the levels of funding are leaving schools, teachers colleges and Council officials asking why they should plan when they have no control over these areas’¹⁴. This risks undermining the thrust not only of PEDP but of other reforms which have the potential to immensely improve service delivery, including fiscal decentralisation and local government reform.

The experience in the education sector has shown that as the flow of resources under basket funding has been difficult with its challenging implications on resource flows, the administration in the sector has responded by expressing preference for GBS. On the other hand MoH, where resource flow has been quite predictable, has not shared this opinion. The education sector has expressed the desire to simplify and enhance access to the public resources it needs to implement their development programmes. The preference for GBS seems to be induced by the difficulties MoEC has had with low disbursement of donor funds. However, the shift should not be a substitute for developing the capacity for sector policy dialogue and provision of guidance and direction for the sector.

¹² MOEC (2004) op cit page 14.

¹³ Because of problems with when PFPs put funding into the account, they do sometimes approve more for withdrawal than is actually there. This results in government having to withdraw what is available at different times. On one occasion, more was withdrawn than had been authorised – and this was publicly apologised for. This has resulted in PFPs now requiring to see actual bank statements to check on levels in the account – an indication of how far micro-management and lack of trust can take you.

¹⁴ Ibid page vi.

3.2.3 Implementing the Decentralisation Policy and Changing Roles

The decentralisation policy (1998) has been posing several challenges at the level of implementation. In particular the division of responsibilities between MoEC and PORALG has remained vague with no clear guidance from the legal framework. The 2004 Review documents substantive problems that exist between MoEC and PO-RALG¹⁵. These derive from the division of responsibility of the two ministries, with PO-RALG having responsibility for ensuring that schools are run efficiently and resources used appropriately and MoEC giving direction on issues of quality, educational standards, curriculum and teacher training. Problems exist in that MoEC still transfers money directly to schools, contrary to government circular no 1 of 1998 which says that sector ministries should communicate with councils only via PO-RALG. The Public Expenditure Tracking Survey in Education (PETS) also faults multiple disbursement channels for education grants for contributing to confusion, 'leakage' and delays.¹⁶ There are also anomalies in the position of the District Education Officer, who is accountable to MoEC, rather than the District Executive Director, unlike other members of the management team at district level. Legislative amendment is believed to be underway, but the revised bill has yet to be made public. Relations between MoEC and PO-RALG are strained over funding issues, and the perception that MoEC is unwilling to relinquish its former hold over every aspect of education from the classroom to the central ministry. The Review report is peppered with comments indicating the lack of progress on issues of relations between PO-RALG and MoEC, with explanations of the implications of this lack of progress.

3.2.4 Recommendations

For the education sector, it is recommended that:

- (i) Focus be placed on GoT demonstrating clear leadership in the education sector. This implies that immediate steps be taken to build capacity for providing effective leadership in policy dialogue. Focus on capacity building, should be articulated through a clear long term strategy, and building out from the existing knowledge and understanding within MoEC and PO-RALG about how to run the sector.
- (ii) Greater realism and assertiveness be cultivated about needs and priorities. It has been observed that the substantial problems which delayed education reform in the 1990s, were not actually solved by the flurry of activity prior to the unveiling of PEDP, they were merely shelved. One of the recommendations of the Participatory Poverty Assessment Report (2003) was to promote a broad national debate about the role of education in poverty reduction and national development – something which has yet to occupy the centre stage of the sector policy dialogue. Such high-level policy issues should be brought back to the policy dialogue agenda. For education this needs to be based on a national debate about the role of education in national development, and what ordinary and poor people say about what they need from the schooling system to help them eradicate poverty consistent with MKUKUTA.

¹⁵ MOEC (2004) page 7 -8

¹⁶ REPOA (2004)

- (iii) Donors should restrain from micromanagement of the sector and give space and facilitate the GoT to increase capacity for developing core strategic issues and goals that are monitorable against agreed benchmarks; should restrain from aggravating coordination problems in the sector and delink the power of ideas from the power of money to avoid using technical advice as de facto conditionality, since the dialogue is so closely tied to provision of funding.
- (iv) The GoT should finalise, including through legislation, an effective division of responsibilities and of financial procedures between, MoF, MoEC and PO-RALG so as to implement more effectively the decentralisation policy.

3.3 Case of Agriculture

3.3.1 Aid Relationships in the Sector

The agricultural sector has exhibited challenges in aid relationships over the past several years. Difficult and unhealthy GoT-DP aid relationships were partly complicated by the high number of donors (15-20) who are active in supporting agriculture complicated further by the fact that formulation of the strategy for development of the sector has been in progress for several years until recently. Mechanisms that have been put in place and the development of ASDS and ASDS have helped to improve coordination though there is a long way to go in this direction.

Representatives interviewed from both sides (government and development partners) remarked that they had witnessed some progress in aid relationships in the sector. However, they also made it clear that there is still a long way to go to meet the challenges in improving donor-government relations in the sector.

The tense relations were eased when a small representative group of DPs was set up and met with the Ministers of Finance and Agriculture and revisited the ASPD. The Heads of Agencies addressed various project related problems especially those by the multilaterals. This experience underscores the importance of involving high level dialogue as a way of unlocking impasse in aid relationships and paving the way for improved partnerships.

3.3.2 Progress in Budget Process

In recent years, it has been observed that accountability and transparency has continued to improve through the PER/MTEF process, in which development partners, civil society organizations, and the private sector have enhanced their participation in the budget process. On the other hand, the sector involves four lead ministries (agriculture sector lead ministries or ASLM¹⁷), each with its own MTEF. This has made it difficult to achieve harmonisation within MTEF. Progress in setting up a basket funding arrangement for the whole sector has also been slow. Less progress has been observed in terms of harmonising MTEF at national level with the MTEF at the district level.

¹⁷ The ASLM are Ministry of Agriculture and Food Security (MAFS), Ministry of Water and Livestock Development (MWLD), Ministry of Cooperative... and Marketing (MC>>M) as well as PORALG.

3.3.3 Progress in coordination and harmonisation

Project-based assistance in the sector has all along been particularly common with Multilateral Development Partners (i.e. WB, ADB and IFAD), which contribute substantially in terms of levels of financing.

There are already a number of agricultural sector projects at various levels of implementation. Currently at the district level, focus is on District Agricultural Development Plans or DADPs. Donor support to districts is largely through funding area-based programmes, such as the Participatory Agricultural Development and Empowerment Project (PADEP), the District Agricultural Sector Investment Project (DASIP), or the Agricultural Services Support Programme (ASSP). The DADPs offer exciting opportunities for donor support. However, the challenge is in mainstreaming the operations of existing large projects and programmes in the sector. The proposed basket funding arrangement would be a step forward in terms of harmonization.

A recent independent evaluation of IFAD, for instance, has indicated that traditional IFAD identification and formulation methodology is seen by key partners to be anachronistic, non-transparent and outside the ASDP co-ordination process (ITAD, 2004)¹⁸. The report proceeds to point out that there have been donor-partner complaints over aspects of the preparation of the experience with the some IFAD projects. In the field visits that the team made, this message was echoed more among other development partners than from the line ministries. This is an indication that the authority for identification and formulation has yet to be driven from within the ASLM coordination framework.

The agricultural sector as opposed to most of the social sectors is largely within the private domain. In addition institutional complexities (i.e. 4 ASLM) create challenges in terms of harmonizing funding modalities, coordination of the sector, expenditure tracking and supervision of agricultural activities at the local level. Apparently, at the district level, there is limited understanding of the concepts and practices of SWAp. Agricultural sector programmes have yet to be fully adjusted to the decentralisation process. In addition, less formal mechanisms such as Client satisfaction surveys and modalities of engaging the private sector – service providers – at local level have yet to be consolidated.

Some progress has been achieved against non-programmatic elements such as a clear sector strategy, the ASDS, and structures set up for aid coordination, the Food and Agriculture Sector Working Group (FASWOG). The poor aid relations in agriculture meant that donors largely withheld resources until there was a strategy and an implementation framework. The ASDS and ASDP are now in place. The FASWOG which has been established to address, among other things, the need for harmonization of processes at the sector level has not been effective in strategically addressing agricultural development issues. One factor that has contributed to rendering it less effective is the inadequate (at high level) representation and commitment from the sector Ministries. Other factors include the non-involvement of the MoF and the absence of an MOU to govern the relationships among stakeholders.

¹⁸ Independent External Evaluation of IFAD: Country Visits: Findings, Major Themes and Issues. Draft Submitted by ITAD Ltd. 17 September, 2004.

There are initiatives being taken towards sector-wide modalities that could avail a means of providing external support to the sector within a transparent, coherent, prioritised and monitored programme of action and budget. Although it has not been fully developed, it is encouraging to note that some of the development partners (bilateral donors) have accepted the idea of SWAp, and guidelines for its operation are already in place. However, the project aid modality is still the dominant mode in the sector. A substantial shift in the composition of aid to the sector in favour of sector-wide modalities of support is therefore a welcome development. A SWAp implies a change in approach towards taking a whole sector as the unit of focus for policy, for expenditure planning and for coordination between government, donors and stakeholders from Civil Society and the Private Sector.

The direct link between agricultural growth or sector output and the generation of income and revenue does have a number of implications which make agricultural programmes significantly more complicated to design than those found in social sectors (Ticehurst, 2005). First, market transactions have a far greater significance in agriculture than in social sectors where government is providing services which would not otherwise exist, or at least not on the same scale. This also implies that full cost recovery is more likely to be practised and subsidies are more difficult to justify than in social sectors. Second, being dominated by private sector operators it means that agricultural policy changes can have far reaching impacts. Getting policies and regulations right is probably more important for influencing farmers' response than what direct resource allocation can achieve.

3.3.4 Recommendations

The following recommendations are made for the agriculture sector:

- § Initiatives need to be taken to strengthen existing avenues of dialogue within the sector to deal with matters relating to aid relationships. Priority should be given to capacity building within MAFS for continued progress in aid relationships, taking the lead in aid coordination in the sector and ensuring leadership and ownership of the policy dialogue.
- § Existing institutional arrangements (e.g. FASWOG) should be made more effective by enhancing capacity, commitment and engaging high level officials in the MAFS and MOF.
- § The orientation of the sector should shift from delivery of projects as such towards getting policies and regulatory framework right, on the basis of which positive response from actors mainly in the private sector can respond. It should be appreciated more that getting policies and regulatory framework right can induce responses which can lead to considerable outcomes even if the push for projects is reduced.

The GOT should harmonise MTEFs of all ASLM (as well as other agencies with agriculture related activities¹⁹) according to the sector policy. The process should involve aligning the MDAs strategic plans to MKUKUTA, working out operational plans and budgets derived from those plans. The new basket funding will then be harmonized with the budget process through MTEF.

¹⁹ Rural roads, agro-forestry, small-scale fishing, beekeeping and wildlife

3.4 General Observations on SWAPs

Concern has been expressed over the continuing disconnect between central and sectoral ministries. Although the situation is improving the picture is still mixed. Some sectors have gone through challenging transition periods in terms of aid relationships and progress towards improved relations has been recorded in some of them we have observed in the cases of education and agriculture.

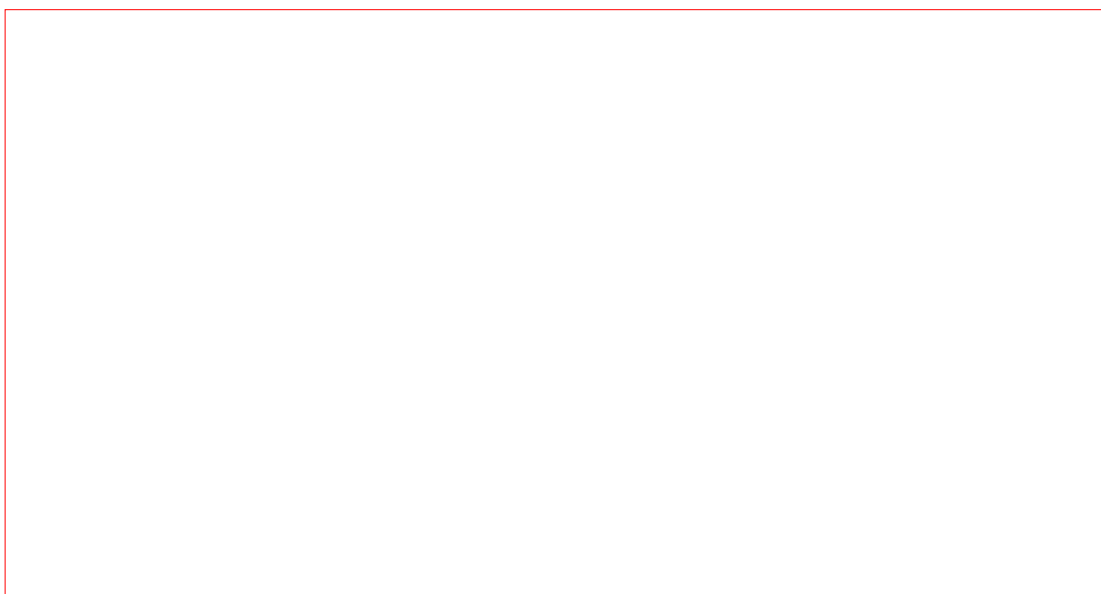
3.4.1 The Concept of SWAPs

A range of different names and labels have been used to define Programme Based Approaches (PBAs) in country specific sectors: Sector Investment Programmes; SWAp; and Sector Programme. The sector-wide approach (SWAp) to aid organisation and delivery which became popular in the donor community in the mid 1990s was a response to the fragmentation, and perceived limited effectiveness of aid. Usually a SWAp is present when “All significant funding for the sector (public and private) supports a single sector strategy and expenditure framework, under government leadership, adopting common approaches across the sector, and progressing towards relying on government procedures to plan, disburse and account for all funds” (Ticehurst, 2005)²⁰. In this sense, SWAPs define the intended direction of change whereby DPs supporting the sector deliver their support to the national strategy in a priority sector. The SWAp as an approach consists of taking a whole sector as the unit of focus for policy, for expenditure planning and for coordination among all key stakeholders. Unfortunately, sometimes, the tendency in MTEF and even in SWAPs has been to think of a sector as a ministry carrying the name of the sector and this has led to problems of coordination as well. With emphasis now on outcome reporting, this confusion may be minimised.

There are seven elements associated with or that make up a SWAp as depicted in Figure 1 (adopted from Ticehurst, 2005) as a system of interrelated elements not necessarily representing a sequence of action. The sector policy and strategy is the foundation of the SWAPs. A disciplined expenditure framework is also essential, but all the elements are important, and all will develop iteratively as the programme evolves.

²⁰ Ticehurst, D. A Sector Wide Approach: What is it and how to get there? Working Paper, 11 February 2005.

Figure 1: Elements of a SWAp



3.4.2 SWAp, Aid Coordination and Harmonisation

SWAPs are strategic frames set up in order to increase harmonized support to a sector under government leadership. SWAPs are supposed to address the challenge of co-ordination among the development partners who are operating in those sectors and sometimes the DP support is spread thinly over too many sub sectors or the distribution of support within the sectors is uneven. Given the wide nature of the some sectors, some sub-sectors tend to be overcrowded with development partners support while other sectors receive sub-optimal levels of support from DPs. Development partners still commonly continue to insist on their own procurement procedures and reporting requirements, and some insist upon earmarking. Some have been unable to adapt to the requirements for decentralised modes of decision-making, which are required by basket-type schemes. SWAPs is one approach that is supposed to address these problems of coordination and harmonisation.

SWAPs may be financed through different aid modalities, including GBS, basket funds, and projects. What is needed is further simplification of disbursement procedures in line with national processes and mechanisms, while keeping a strategic focus on the sector. It is possible for a SWAP to remain a valid instrument while sectoral budget support would guarantee long-term financial predictability.

3.4.3 Experience and Lessons to date

Experience of development partners de-linking dialogue and funding is so far only from sectors like education and health. Development partners' consider such sectors as good candidate for budget support financing, while cross-cutting reforms like local government and public financial management reforms are considered more suitable for common basket funding. The health and education sectors have been the main areas for SWAPs but there are also a number of SWAPs in areas such as agricultural development, transport and water development. Reviews of SWAPs have brought to our

attention some benefits in respect of governments' capacity to plan and implement programmes and of donor coordination. They have helped to improve the understanding of problems of service delivery and access by the poor, and the translation of stated sector priorities into resource allocations.

The problem of vested interests of sectors in collusion with DPs leads to exaggeration of mistrust on MoF and engagement of lobbies to delay changing the system for the better. This observation is consistent with the observation made by Berke (2002)²¹ in the context of embedding sector programmes to the PRS process. Berke noted the highly complex challenges of sector alignment with PRS, the problems of weak intergovernmental mechanisms for better sector programming and the need to address vested interests of donors and MDAs viz. financing at the sector level. Over optimism on the part of some DPs to push money has coincided with the domestic interests in specific sectors in mobilizing as much money as possible to facilitate implementation of their programmes.

The lack of trust in the domestic budget management process has led some sectors to see basket funding in the context of SWAPs as a more effective way of achieving assurance of enhanced and predictable resources. The leadership in such sectors have tended to put greater trust in donors than in their own government's budget system.

The SWAPs have tended to have a centralising effect on policy development and resource use in the priority sectors. There are many reasons for this but the main one appears to have been the de-linking of the resource allocation process from the normal political process where different parts of a country uses its influence to get public resources. SWAPs have established parallel systems of management and accounting and contributed significantly to transaction costs and failed to develop the seven elements which would ensure integration of national priorities and alignment to national processes. Preoccupation with resources and their confinement to the sector has sometimes encouraged the setting up of elaborate systems to monitor flow of funds and the work involved in this has sometimes overshadowed the actual sector dialogue.

There is a strong desire by some DPs to link their funding to specific sectors in development cooperation based on a desire to be seen to be supporting the MDGs. This is one reason why SWAPs have started with the social sectors notably health and education. However, SWAPs resources have clearly been fungible and not impacted overall resource allocation to sectors as much as intended.

So far only a few DPs have experience from de-linking sector support and sector dialogue. The relationship between dialogue on priority sector issues and the move towards general budget support as aid modality differs from country to country. The main impression from donors' experiences seems to be that there is a good possibility of maintaining a sector level dialogue in combination with a budget support aid modality. What appears to happen in most cases is a combination of two factors. Firstly, the general budget support dialogue "takes over" many of the policy and cross-cutting dialogue issues that were previously discussed in sector programme working groups. Secondly, administrative resources in donor agencies are freed to be more involved in output and outcome related issues in the sector. It is furthermore evident that there is an ongoing convergence of issues in the dialogue linked to budget

²¹ Berke, C. Embedding Sector Programmes in the PRS Process – A Framework for Discussion Paper prepared for the SPA. 2002.

support and traditional social sector dialogue. The macro dialogue has become more focused on PRSPs, poverty outcomes and governance, while sector dialogues have increasingly become involved in issues such as civil service reform and public sector financial management.

Both the interviews with other donors and the (still relatively limited) research literature in this field indicate, however, that it is important to clarify a number of issues:

- What should emerge as a result from a particular priority sector dialogue that is not captured in an overall policy oriented dialogue on MKUKUTA?
- Is it more detail on the same issues or different issues? SWAp dialogue has often involved tracking of funding and total sector allocations and reviews of indicators of service delivery. All these elements are key elements in typical macro dialogue processes such as Public Expenditure Reviews (PER) and poverty monitoring through household surveys.
- Could more be achieved by establishing reporting procedures from priority sectors to MKUKUTA and budget support dialogue?
- Do all sectors without SWAps badly need them?

3.4.4 The Future of SWAPs

The future of SWAPs has not been made clear. Are they a permanent aid modality or are they a transitional aid modality towards GBS? Past experience can inform the way forward. Indeed, some sceptics of a 100% GBS are still arguing that a multiple approach combining the right mix of GBS, Basket Funding and Project Approach is still sensible depending on the type of need. They say that what is required is strong government leadership in applying the right modality at each specific financing operation. The universality of using the exchequer system is not being challenged.

The strong desire by some DPs to link their funding to MDG related sectors should be addressed by ensuring that MDGs are integrated in the overall national policy and strategy from which specific sector policies and strategies will be derived. What is needed is a more clear policy dialogue mechanisms which would facilitate integration of MDGs into the overall national development policy framework. An encouraging beginning was made to incorporate some these MDGs in Vision 2025 and further efforts have been made to incorporate the key MDGs in MKUKUTA. In the context of these developments the need for DPs to have to tie resources to specific sectors in order to contribute to the MDGs should fade away.

Based on experience and lessons that have been learned the GoT should require SWAPs to move forward towards fuller integration into the system of national priorities and processes as reflected in MKUKUTA and the sector policies, strategies and strategic plans from which MTEFs and annual budgets will be derived. All SWAPs should be guided by clear sector policies, sector strategic plans consistent with MKUKUTA, sector MTEFs, client consultation mechanisms, define coordination and harmonisation processes and adapt national performance monitoring systems including participation of clients consistent with the Client Service Charter.

4.0 DEVELOPMENT PARTNERS AND DIALOGUE PROCESSES

4.1 The Development Partners Group (DPG)

4.1.1 From DAC to DPG: Towards Formalisation

The development partners group (DPG) has organised itself more formally recently partly in response to the launching of TAS at national level and the publication of the Rome Declaration (RD) at international level. DAC peer review took Tanzania as one of the case studies. This development induced change of name from DAC to DPG to avoid confusion with the DAC at the OECD level. Terms of reference were prepared to achieve greater clarity and coherence. The Declaration encourages increased efforts to harmonise the operational policies, procedures and practices of OECD/DAC institutions with those of partner country systems. These developments induced the formalisation of DPG in which the DAC practices were codified with a view to enhancing the combined response to TAS and the Rome Declaration. The rationale for the DPG, which replaced the local DAC, is to complement GoT's own coordination efforts by promoting internal coherence among the DPs in the context of TAS and the Rome Declaration (RD). DPG addresses harmonisation with a view to reducing transaction costs.

The DPG is chaired jointly by the UNDP and one bilateral donor, the latter on a rotational basis. The option of nominating DPG members to speak on behalf of the larger group in discussions with GoT has been formalised and is being operationalised.

The main objective of DPG is to increase the effectiveness of development assistance in support of GoT's national goals and systems. It seeks to move beyond information sharing towards actively seeking best practice in harmonisation. Consistent with the main objective DPG operates according to principles of recognition of PRS and TAS and facilitating the realisation of their outcomes, inclusivity amidst relative diversity and early acknowledgement of constraints to harmonisation so that solutions may be found.

4.1.2 Improved Modalities of Working

DPG has improved its modality of working to enable it meet the challenges ahead. The DPG sought to establish stronger linkages with sector/thematic groups to harmonise dialogue at the level of policy, programmes and projects. One purpose of sector reporting is to consider linkages to key processes (such as PRS, PMS and PER/MTEF) and the use of national systems in programming, financing and review as well as consider the use of joint reviews, joint analytic work and the harmonisation of initiatives. In addition, efforts are made to mainstream all cross-sectoral issues such as HIV/AIDS. Considerable progress has been made in evolving the architecture. The sub-groups are more regular and more feasible. Within sub-groups there has been a shift of focus towards broader issues. For instance, the governance sub-group addresses broader issues of accountability and reforms associated with governance.

The DPG has been seeking to identify common positions on certain policy issues. For instance, the fact that the DPG submitted consolidated comments on the initial drafts of MKUKUTA bears testimony to this development. The DPG organized themselves and consolidated their comments on MKUKUTA and conveyed a common message to GoT on the drafts of a key policy document.

The DPG has progressed in terms of undertaking substantive work. Its way of operating has shifted from discussing standard reports to addressing themes and keeping track of important developments. DPG has improved in terms of cohesion, allegiance and sense of purpose. Those who operate outside the group are on the defensive. The group has been welcome by GoT as credible and legitimate. High-level consultation between GoT and bilaterals have been redefined to be less frequent and to cover more general issues rather than details.

DPG has made improvements in defining its working groups and is exhibiting greater coherence. Partly because of the manner in which it has organized itself, the DPG has managed to deal with difficult coordination problems in agriculture, have evolved a PRBS structure and is strengthening the Secretariat.

4.1.3 Challenges

All agencies (DPs) have submitted reports on progress they have made on harmonization as articulated by OECD. DPs who are members of OECD/DAC have endorsed Rome Declaration. However, at the level of its implementation the GoT has experienced considerable variations between different DPs in respect of the way they align and harmonise with GoT systems and priorities. The situation is complicated further by variations on the side of GoT in respect of exposure to the Rome agenda and what it means. Such wide variations need to be addressed with a view to understanding them better and initiating action towards convergence.

It appears that DPG does not have a working definition of what it means by harmonisation. In fact, it is notable that few donor groups actually say what they mean by harmonisation. This can complicate efforts towards harmonisation if the interpretation and understanding of the concept is itself not harmonised. There is need to have a common understanding of harmonization and alignment and their implications at the operational level. The DPG has not only clarified the concept but it has not developed a time-bound action plan for moving towards harmonisation.

Good progress that has been made at country level but this progress does not seem to be reaching the higher level DP offices. In this case it is not clear whether there is an agreed manner in which the country based officials appraise their head offices or capitals on progress being made locally in implementing the Rome Declaration. The OECD/DAC have agreed to “simplify and harmonise their own procedures to reduce the burden placed on partner countries. The manner in which harmonization is implemented needs to be adapted to local circumstances and institutional capacities” (OECD, 2003,p.19)²². This suggests that the capitals are ready to change if they can be briefed appropriately on the situation and developments on the ground at the country level. Appropriate briefing on progress

²² OECD: Harmonising Donor Practices for Effective Aid Delivery. DAC Guidelines and Reference Series. Paris 2003.

being made and identification of any hurdles experienced with existing rules, regulations and procedures in the donor countries can help to identify areas where rules and procedures may have to be changed at the level of the capitals.

Some donors continue to carry out practices, which are not consistent with the spirit of TAS, Rome Declaration, developments in harmonisation and alignment agreements at OECD/DAC level. For instance, some DPs continue to approach government in closed doors at various levels. When arrangements are made to submit common comments on policy issues, there are still DPs who prefer to make their further comments separately. At CG meetings there has always been a temptation to make individual country presentations even after the lead or representative donor has given a common statement.

4.1.4 Recommendations

It is recommended that:

- § DPG should develop and agree on a working definition of what it means by harmonisation and alignment to facilitate common interpretation at the operational level, work out a time-bound action plan and present it to GoT.
- § The DPG should put in place mechanisms for appropriate briefing of capitals and OECD/DAC on progress being made in implementing the Rome Declaration and other internationally agreed principles of best practices in development cooperation. Such briefing should include identification of regulations and procedures that may have to be changed at the level of the capitals in order to facilitate the process of implementing the Rome Declaration and other international agreements on best practices in development cooperation.
- § The DPs should accept, consistent with the Rome Declaration, to give space for country-leadership and ownership to take root. This means that DPs would accept what Tanzania directs and have confidence in its capacity to provide leadership. The basis of the fear among DPs that Tanzania left alone would make mistakes should be addressed and its basis understood better because this is the basis for undermining ownership and GoT leadership. Such fears should be translated into capacity building initiatives to address the deficiencies and as appropriate identify incentive structures that may be driving the behaviour which mitigates against convergence to agreed practices.
- § The role of lead donors and other donors should be clarified. The main elements that must be included in that definition are: taking the lead in donor coordination and facilitating and organizing support to national development efforts and initiating necessary changes in their own policies and procedures that are needed to allow greater space for Tanzania to address its development challenges.
- § JAS should define more firmly the new role of DPs, distinguishing the role of bilaterals and multilaterals, with a view to conforming to their comparative advantages. DPs who have comparative advantage in certain areas may be allowed to pilot their approaches with a view to

subjecting the outcomes to policy dialogue and making decisions about up-scaling. All DPs who have been engaged in innovative pilots should bring the lessons forward in policy dialogue and together with other stakeholders discuss on the possibilities of up-scaling into sector wide policy action. All DPs should channel funds through the Exchequer.

- § There should be a forceful drive by Government (within specific sectors) aiming to induce development partners (particularly the multilaterals) to move away from project-based approaches in favour of sector-wide modalities of support. This stands to benefit local ownership and lower transactions costs. DPs who are supporting specific sectors should be required to move towards sector-wide funding modalities through common procurement and reporting arrangements, avoidance of earmarking, and persistence with discrete projects.
- § DPs should be required to untie TA with respect to project funding and give space to the GOT to apply its national procurement procedures in an open and competitive manner.

4.2 Streamlining the Dialogue Process

4.2.1 The Problem and Observations

A plethora of policy processes has been put in place with a sign of improving participation in the policy process. However, there are concerns that have arisen in the course of time

When DP representatives are asked what they would like to achieve in the dialogue with Tanzania, there is a remarkable unity in the replies. Everybody points to a number of cross cutting issues that are not sector specific as the main points of dialogue and everybody complains that it is difficult to get through on a number of these issues. This means that there is much to be gained from a coordinated dialogue.

Sector specialists working as donor representatives have expressed the view that their dialogue is too dominated by cross cutting issues possibly at the expense of addressing sector specific challenges.

The typical cross-cutting issues include: issues related to improved budget quality, monitoring of social and economic developments including poverty monitoring and analysis, improvement of economic statistics, tracking of social sector funding and actual service delivery in local communities and public financial management reform, in particular public procurement reform, local government funding and roll-out of the IT-based accounting system, etc. These issues are recurrent in discussions with heads of missions, economists and sector specialists on the donor side and of both Ministry of Finance representatives and line ministries' representatives on the Government side. There is wide agreement that there is a need for a cross-cutting dialogue and technical cooperation on these issues.

On the other hand, GoT side officials who were interviewed expressed the wish to see effective but less complicated and less interfering dialogue with the donors.

4.2.2 Recommendations

- § GoT should come out more clearly and strongly on the modalities of policy dialogue and clarify entry points by various stakeholders in policy dialogue as well as stipulate the practice and procedures that should be followed. This point is also raised in Peretz & Wangwe (2004)²³. GoT should define the dialogue modalities, agree with the donors and make arrangements to be more proactive in engaging DPs and other partners in policy dialogue.
- § Many of the stakeholders in the government – donors' dialogue in Tanzania have expressed concern over the lack of clarity on the respective roles of government and donors in the many interactions they have. Concern has been expressed that there are too many joint working groups and very often lack of clarity as to the status of reports and assessments that emerge for the groups.

It is proposed that a simplified system of dialogue be adopted. The proposed simplification of dialogue is as follows:

Dialogue issue/area	Existing or new group for dialogue
Political level dialogue	DCF represented by high level DPG and GoT
Aid policy and pledging support to Tanzania using the modality of GBS, which is the GoT preferred modality	PRBS Heads of Missions, which is the main dialogue forum for the PRBS DPs with the Ministry of Finance.
Dialogue on macroeconomic developments, structural reform issues in private sector and overall budget allocations.	PER macro group with MoF. (Economists supporting the two "political level groups). This process should mirror and be supported by the PRGF dialogue.
Poverty monitoring and outcome	PMS group with VPs Office
Public Financial Management Issues	PFMRP Joint Steering Committee
Sector working groups	PER-based and one single group for each sector

The proposed dialogue arrangements should be structured and implemented on the basis of the considerations and guidelines as follows:

- Ø It should be structured around a Performance Assessment Framework (PAF) which should be derived from MKUKUTA

²³ Peretz, D. and S. Wangwe. Monitoring Donor and IFI Support Behind Country Owned Poverty Reduction Strategies in the United Republic of Tanzania. Report for the Commonwealth Secretariat. August 2004.

- Ø It should include sector coverage with the aim of encouraging a shift in financing to GBS but detailed issues should be avoided due to transaction costs.
- Ø It is of utmost importance not to overload the dialogue process. The number of issues featured in the Performance Assessment Framework and discussed in the semi-annual meeting must be limited so as to get the right focus and depth. In the PAF there should be identified a maximum of 6-10 results based monitorable actions that are derived from the NSGRP. PAF should in addition make "one-line" references to completion of satisfactory reviews in the existing relevant programmes.
- Ø NSGRP implementation should be monitored by an assessment of overall progress focusing on: (i) policy on and adequacy of resource "inputs" (through PER process and facilitated by Government efforts to make the budget more transparent and linked to the NSGRP) and (ii) operational outcomes or concrete "outputs" of achieving the NSGRP through the PMS. Sector issues such as education or health policy should be brought in on an as and when required basis.
- Ø The assessment of Macroeconomic developments such as reforms on financial sector, debt policy and management, and tax policy and management, should be monitored under the IMF PRGF programme to avoid cross-conditionality and reporting burdens on Government to two sets of foreign stakeholders (IMF as well as GBS partners). PRGF staff reports would then indicate progress made. The macroeconomic choices should continuously be aligned with MKUKUTA with a view to ensuring that the macroeconomic policy choices that are being made are consistent with the principles and spirit of MKUKUTA and supportive of the implementation of national programmes.
- Ø Detailed issues are better dealt with in the PER sector working groups and reviewed in the main PER work agenda, to ensure they are consistent with the NSGRP and JAS. . However, this will only work if the sectoral groups function well, yield results and are demonstrably linked with budget making and execution.
- Ø The new PER-linked Sector Groups would provide donors, government sector ministries and other stakeholders with a forum for discussion on policy and budget proposals to be submitted to the Ministry of Finance and the technical cooperation partners. Donor representatives taking part in these groups would not pledge direct support but rather work with the government in an advisory capacity. They would also bring particular issues such as major policy reform, substantial deviation from plans and serious policy issues or slippages to the attention of the PRBS/PRSC meeting representatives in their own organisations.

Dialogue would better conducted if in each sector-ministry cluster there is an appointed leader with clear TOR for leadership and membership roles

5.0 PARTICIPATION OF BROADER CONSTITUENCIES: DEEPENING AND INSTITUTIONALISING

Participation in policy dialogue has been broadened and is becoming more institutionalized. The policy-making processes have been broadened in terms of participation e.g. in PRS and PER processes. PER, PRS and PPW processes have been broadened and deepened. The number and quality of exchanges has been much higher. The sectors have been involved more explicitly. The regions have been involved more widely than in the past. The Policy Week for example has involved national as well as regional dialogue. Tensions have been reduced as trust has increased. The participation process has been better institutionalized. For instance, parliamentarians have participated through the Bunge Foundation as well as through a general workshop for the whole Bunge and through chairpersons of various Bunge Committees. Opposition in parliament has been involved more explicitly. While the role of Parliament has been enhanced, the discussions could be deepened further.

Overall, it has been found that the level of participation in policy dialogue has grown considerably. However, there are concerns that the level of participation is still relatively weak on the part of the mass media and parliament. The role of Parliament needs to go beyond the annual budget and influence medium term and long term planning and policy making. This may call for capacity building of Parliament and revisit the structure and processes employed. There is need to establish capacity needs in the area of research and technical support for Parliament. The legitimate and positive role of Parliament will be facilitated by participation in appropriately early stages of policy and plan formulation. There are wrong beliefs that Parliamentarians would politicise technical issues in the policy or plan formulation processes, forgetting that many Parliamentarians have technical backgrounds and are well placed to present the views and experiences of grassroot communities.

This chapter also addresses participation of the civil society and the private sector, who have a growing role to play in the economy now that the government is disengaging from business and has liberalised the economy.

5.1 Civil Society

The quality of exchanges between GoT and CSOs has reached a higher platform recently. For this interface, CSOs are starting to appreciate government effort in widening the participative process in generating policies so as to make them more effective. Reciprocal recognition by government of this CSO positive attitude and contribution is enhancing the mutual trust. Openness by NGOs is no longer automatically taken as a hostile stance, although there is still some way to go before autonomy and 'watchdog' functions of NGOs are embraced by all in Government and among DPs.

The level of internal organization of NGOs for purposes of enhancing their participation in the policy process has improved. Some 70 NGOs have set up an NGO Policy Forum (NPF) to bring together NGO voices, particularly in public policy advocacy and policy influencing, to make policies more realistic, and the processes more inclusive and transparent. They have specifically targeted the PRS, PER and LGR processes, which they deem to be critical for development and citizens welfare.

Participation in policy and resource allocation processes has improved. For instance, CSO participation: e.g. in MKUKUTA formulation and in the poverty week has been higher than has been in the past. CSOs are increasingly been seen as providing added value to the processes, thus GoT getting useful contribution (e.g. HAKIKAZI Catalyst with ability to provide popular/simplified versions of policy documents) or professional bodies providing professionally strong comments on documents. In fact, it has been observed that certain CSOs/NGOS have become so successful that to leave them out would raise questions from key stakeholders such as DPs and international organisations as to whether they have been consulted (e.g. TGNP on gender issues or HAKI ELIMU on education matters).

However, there are still a few challenges to be addressed, namely:

- Participatory approaches that are adopted are still not systematic as all depend on government felt need for extending invitations to CSOs. This challenge has been addressed by the proactive approach by the CSOs. “they knock door of government” on processes they sense are being processed behind the curtain .
- Differences in approaches may be from sector to sector or subject to subject. In specific sectors, it is sometimes assumed that participation should be restricted to those CSOs specialising in the sector, often forgetting that impact of policy or policy measures being processed go beyond the sector: e.g. HIV/AIDS.
- Within government and political circles there are also subtle concerns that most stronger NGO voices may not truly be representing large sections of society. This may be reinforced by the fact that most important NGOs are based in Dar es Salaam. CSOS/NGO participation is highest among CSOs in Dar es Salaam but participation at local level is still weak due to weak capacity of these organizations. Greater inclusion of rural-based NGOs and communities in policy dialogue is something the government should be concerned about. DP support in this area should be welcome.
- Some NGOs operate in local constituencies but are not accountable to the LGA or the people they serve. They feel they are accountable to the funders rather than the people.
- Lack of capacity amongst CSO/NGOs could be addressed through DP support but DPs have been reported to be reluctant to support institutional building in NGOs. They would rather provide money for projects.
- NGOs further expressed the feeling that sharing information with government could be misused to sour donors’ attitude and affect the flow of aid or encourage a pretext to reduce assistance. An open mind and polite but frank expression of views in participatory processes should be encouraged. This fear should be addressed through defining a robust system of conditionalities with a view to enhancing predictability of resources.

There are a number of specific areas where it is felt that collaboration and partnerships could be strengthened, namely:

- Ø Possibility of opening up the Budget Support Process and Joint Performance Assessment Framework for discussion by CSOs and other stakeholders
- Ø Dissemination of documents for consultation to participants should be done with sufficient lead time and in an appropriate language (e.g. English and/or Swahili) to allow informed and expressive participation; resident donor representatives have to try to reach a minimum level of Swahili to be able to follow the general argument of a Swahili speaker. It is necessary to demystify policy documents by writing them in a simple language or where this is not possible provide a popular version of the same.
- Ø Courtesy demands that in a forum dedicated to CSO participation or the popular audience, unstructured discussion may ensue and the use of Swahili should not be a reason for a walk out by those who feel uncomfortable with the language.
- Ø CSOs should be required to be partly accountable to the governments and mainly accountable to the constituencies they serve and on whose behalf they raise funds. The accountability and reporting systems should be revisited with a view to making the NGOs have the incentive to work and cooperate with governments in their places of operation. Overall accountability of CSOs to its constituencies needs to be strengthened so that they develop and adhere to standards and codes of conduct as well as meet basic accountability requirements such as provision of annual reports and audited statements and full public disclosure of such information.

5.1.1 Recommendations

It is recommended that:

- (i) Capacity building programmes for the civil society be designed and supported including the CSOs which are located outside Dar es Salaam.
- (ii) Deliberate efforts be made to simplify and demystify policy documents by writing them in a simple language, translating them into Swahili. To the extent possible provide a popular version of the same policy documents.
- (iii) The level of participation in policy dialogue in districts should be raised by organizing to incorporate CSOs who are active in the respective.
- (iv) Mechanisms for CSO accountability and transparency should be strengthened while safeguards are put in place to ensure CSO independence and autonomy.

5.2 Private Sector

Participation in processes by the private sector has continued to deepen and institutionalize through various working committees under the Tanzania National Business Council (TNBC) and the Investors Round Table (IRT) and other business associations. Putting in place well-structured TNBC is in itself a notable achievement. The Council chaired by the President and the Executive Committee chaired by the Chief Secretary have had a high profile. The functioning of the Executive Committee and the formation and functioning of various working groups and the establishment of a secretariat have put the TNBC in a good footing. The acquisition of an office building at a convenient location within the city centre, donated by the Tanzania Government, demonstrates the determination and commitment for forging of the public-private partnership. TNBC represents institutionalisation of the dialogue between the Government and the Private Sector.

Major achievements of private sector participation in the policy process have included:

- Ø Contribution to the tax reform through participation in the Task Force for Tax Reform. One notable achievement is in the New Income Tax Act, 2004 which among other things simplified the tax system by putting in place a Self-Assessment System. However, the rather unpleasant atmosphere in which earlier dialogue was conducted on the New Income Tax Act could have been avoided if established consultative mechanisms (e.g. TNBC Working Group on Finance, Task Force on Tax Reform) had been used right from the beginning. The Income Tax Bill was going to be passed without going through the established dialogue machinery. It is the alignment of DPs that made a difference and the private sector views were considered in the eleventh hour. Such actions could undermine transparency in the policy dialogue processes.
- Ø The impact on improved attitudes of both the public and the private sector is positive. The willingness to work together and to concede that each side has something useful to offer has been demonstrated. There are indications of growing trust on the side of both actors. Fifth, accountability on both sides has been enhanced (TNBC, 2004)²⁴.
- Ø The private sector has participated effectively in the policy formulation in respect of MKUKUTA. With the assistance of UNIDO, a consultant was engaged under the management of the Private Sector Foundation, an apex body, specifically to carry out consultations with the key actors in the private sector. The resulting report was discussed in a workshop in which the private sector representatives made their contributions and the paper was finalized incorporating the additional concerns. Both the paper and the workshop report were submitted to the MKUKUTA drafting team as the contribution of the private sector.

²⁴ Interim Impact Assessment of the Consultative Mechanism Through Tanzania National Business Council.. Report submitted to TNBC by Daima Associates Ltd and presented to the TNBC meeting in November 2004.

However, as the participation of the private sector is becoming deeper and broader, it is facing new challenges. The key challenges this process is facing are the following:

- Operationalisation of TNBC decisions is being challenged by several operational level hurdles which reduce speedy implementation of decisions. It was observed that the capacity to solve problems on a day-to-day basis in a timely manner was rather weak both on the part of some government institutions and the private sector representation. The challenge is to strengthen follow up mechanisms to ensure timely implementation of the decisions made by the Council and its Committees (TNBC, 2004).
- Smart Partnership requires change in the attitude and mindset on the part of Government officials and private sector actors to effectively participate in policy dialogue. The learning process has taken place on both sides. However, there are die-hards on both sides (TNBC, 2004). The challenge is to generalize the capacity building experience and embark on more systematic and comprehensive programmes in change management directed towards changing attitudes and reorientation of culture on the side of actors in the public sector as well as the private sector. The Public Sector Management Reform is addressing this shortcoming, particularly the attitude of civil servants towards business operators.
- The concept of public private participation (PPP) has yet to be sufficiently operationalised at the level of implementation especially in public service delivery in local development (TNBC, 2004). This mechanism should also be utilised to discuss regulatory and partnership issues on a regular basis. Programmes of supporting the private sector in capacity building for more effective participation in policy process and in service delivery should be addressed in the context of PPP.
- On the ground, private sector participation is taking place in various sectors but with varying degrees of intensity and institutionalization (TNBC, 2004). While in some sectors participation has been regular and growing over time, there are still sectors in which private sector participation has been rather sporadic, often casting doubts as to whether specific sections of government are fully committed to participation. In some cases it has appeared as if the government felt a particular need of extending invitations to the private sector to show evidence that the private sector has participated.
- In some cases major decisions affecting the private sector have been made without sufficient involvement of the private sector. Vivid evidence of lack on participation was cited in respect to Tanzania's withdrawal from COMESA. TCCIA had commissioned a study back in 1999, which proved that withdrawal would be "catastrophic" to Tanzania. Three years after withdrawal, the decision is now being reversed. After the study, the government was invited for the workshop on the study outcome, but did not send representatives. Recently the government has asked for the Report from TCCIA. Thus, there was no consultation when the decision to opt out of COMESA was take and even now, consultation to go back is not active.

5.2.1 Recommendations

It is recommended that consolidation efforts be encouraged to institutionalize private sector participation in the processes of developing sectoral policies and strategies and strategic plans of MDAs. This should be done by strengthening the capacity of the secretariat of the apex body, PSF. A stronger secretariat will be able to put forward issues concerning the private sector, as well as to participate in meetings on behalf of the busy business executives and arrange for follow up to ensure timely implementation of the decisions made at various forums which concern the private sector.

6.0 BUDGET PROCESS AND PUBLIC FINANCIAL MANAGEMENT AND ACCOUNTING SYSTEMS

A major development that has been identified is the adoption of a more strategic approach to public spending through the MTEF/PER with focus on priorities as articulated in the PRS. The link between PER and PRS and the budget in general has been strengthened. Sectors engage in prioritization of their activities more than they did in the past. Budget guidelines have been rewritten to reflect new developments. Mechanisms for continuous monitoring of progress are being made and impacts of development initiatives and actions have been put in place on the heels of progress after the first round of the public financial management. Further challenges of financial control as well as those of allocation of resources according to priority are being tackled. Public resource management has improved considerably. Transparency and accountability of public financial resources has improved. All regions have been computerized. In the last two years the priority has been given to strengthening the infrastructure needed to make computerized sub-Treasuries work more effectively. Investment in capacity building in local government authorities is getting some attention. Tanzania has been acknowledged as a leading country in implementing the IFMS and many African countries are keen to learn from the Tanzania's experience and to emulate it. These improvements have contributed to giving comfort to the DPs.

In the last two years, progress has been made in strengthening the predictability of resources especially through budget support. Projections of scheduled expenditures on projects and programmes were submitted by the DPs to the MOF through the PER process. The fact that disbursements started to be made under the harmonized PRBS and PRSC mechanisms has contributed to improving predictability of budget support inflows.

6.1 Budget Process: Planning, Political Process and Public Resource Management

Tanzania has carried out a successful economic reform programme with significant results in economic growth, macroeconomic stabilisation, lowered interest rates and in public financial management systems. However, all involved parties also observe that progress is much more limited as far as the quality of the budget process is concerned. The budget does not yet function as the strategic policy and resource allocation tool it is supposed to be. In the policy-budget-service delivery chain the budget formulation is seen as the weak link. There is empirical knowledge about needs and social conditions and the overall planning process provides national policy objectives and plans, but the goals and objectives are not translated into properly costed budgets and overall priorities.

A low quality budget process is a problem in any country but even more so in a country with severe resource constraints such as Tanzania. This has two important consequences:

- One is political. A parliamentary democracy is based on a full budget process but politicians will not bother much about the budget if they feel that it lacks coverage and is of low technical quality etc. Political ownership and accountability are likely to be undermined.

- The other is linked to fiduciary risk. Any modern public sector accounting and auditing service requires a good budget to measure results against.

In proposing to address this, DP representatives as well as some GoT officials argue that the budget problem is mostly technical. They argue that there are basically two solutions:

The first is for Tanzania to work out a complete budget called an MTEF²⁵. DPs tend to claim that carrying out an MTEF process is possible if only Tanzania had the technical capacity and political will. A good MTEF would mean that all resources are brought in to the resource envelope and that a bottom up or activity based budget process is carried out. Tanzanian government representatives go further to argue that while the MTEF/PER process is crucial, it may not be feasible when donor resources are fragmented, regulated by numerous agreements and basically are complicated by conditionalities which are not always predictable.

An “objective” assessment of this is difficult because anything is in a sense possible with enough effort, but in practical terms in a country like Tanzania where the donor picture is so complicated, a fully functioning MTEF could prove to be difficult to achieve unless action on two fronts is taken. First, full information is provided of donor resources and their predictability is enhanced. Second, there is political and institutional capacity within GoT to abide by sequencing and prioritisation. These problems have been acknowledged in other MTEFs in Africa (Holmes & Evans 2003 on the experience of MTEFs in Africa).

MTEF in Tanzania is reported to be working but it works selectively with wide variations between sectors. The PER process at national and sector level has been functioning but the level of functioning varies widely depending on the quality of leadership in the respective working groups. The question being asked is whether the level of performance of the various working groups should continue to be left to the voluntary initiative by the respective working group leaders. More binding performance requirements could be put in place. The coordination between strategic plans, which is coordinated by the President’s Office- Public Service Management (PO-PSM), and budgeting, which is coordinated by MOF is improving and initiatives are in place but it has yet to ensure that the budgeting process is driven by strategic planning and strategic thinking. Efforts are being made to harmonise EPICOR and MME computerized systems and to harness their complementarity.

Perhaps even more importantly, practice has shown that it is not feasible to invite the Tanzanian Parliament to vote on budget allocations that are the results of donor controlled projects and sector programmes. These resource flows are regarded as decided upon by development partners and therefore not included in the full political budget process even though they might be listed in budget documents.

An alternative solution to the budgetary issues is perceived to be active donor coordination on what could be called the diplomatic level. Donor coordination is seen as the tool to reach the objective of reduced transaction costs and ultimately an indirect support to the improvement of the Tanzanian

²⁵ Medium Term Expenditure Framework which is a bit of a misnomer since the main focus is to move all available resources into an overall budget process. The uncertainty about development assistance in the 2 -3 year perspective has made the medium term side of MTEFs rather pointless.

policy, planning and budget process. There is a tendency among DPs to think that since the budget process does not work well enough, harmonised procedures and a good exchange of information and sharing of analytical, will somehow make up for the missing aspects of the budget process. Better coordination and harmonisation is certainly desirable and would help but it would only go that far. It should be recognised that the country's budget is the national tool to coordinate and prioritise policy and resources. The budget in Tanzania is in a sense not allowed to play the role that is taken for granted in other countries.

As is noted in the 2004 World Development Report, the problematic aspect of the donor – government relationship is not just that dialogue processes are not coordinated but that donors provide resources to the public sector that are outside the budget process. Different sectors represented by line ministries and other spending agencies in government access resources uncontested and outside the priority setting process. Government budgets and priority setting processes in most countries are based on contestability as the key driver for priority setting. Contestability drives research, policy development and ultimately political debate.

The main conclusion is that the link between aid coordination, the choice of aid modalities and the development of the Tanzanian budget process is crucially important.

Applying better methods to the existing funding structure can help a little but there is good reason to believe that if a large enough proportion of donor resources are truly on budget in the sense that they are known well in advance of the budget year, allocated through the political system and spent and accounted for through the Treasury, then, two major positive effects will be achieved. The quality of the budgets will improve dramatically and the use of donor resources will be much better coordinated. Donor coordination only is obviously important and positive but it will never be able to replace a well functioning budget process. The situation is therefore something of a Catch-22. Budgets are not working because aid is fragmented – aid is fragmented because budgets are not working.

The term 'on budget' is often used un-critically by both government and donor representatives. It is of utmost importance to understand that being on budget is linked to the concept of 'political contestability' which means that resources for a given public sector activity is allocated in a budget process that creates a contest with other activities. The contest process in most countries starts in the preliminary budget discussions between the Ministry of Finance and line ministries, moves on to cabinet level discussions and is finally settled in Parliament. It is reasonably undisputed that it is this contest which creates the main push for improved quality of the budget process in particular and in many cases for the political debate in general. Being fully 'on budget' therefore has far reaching implications on three important areas: planning, political level debate and public resource management (payment systems, accounting and auditing).

- On planning, this entails that the resources are included in the resources envelope from the start of the planning process for the budget year in question. This would in most countries mean that resources are known with a reasonable degree of certainty at least 6 months prior to the start of the budget year. The national priorities as expressed in key policy documents such as MKUKUTA are expected to be reflected in budget allocations.

- On the political level debate in cabinet and parliament it means that allocations and the reasoning for them are debated in cabinet before the proposal to send the budget to Parliament and then debated again. This is the main contest process. In fact, it can be argued that the apparent lack of political debate in many African countries about the enormous health and education sector challenges is caused by the fact that health and education sector budgets are never discussed among the political leaders in the country. The two line ministries are often too busy sourcing funding for projects and programmes, leaving little attention to policy, planning and budgeting and discussing with the minister of finance or the cabinet.
- On public resource management, this means that public sector payment systems and banking system are being used and which ensures that there is an established pattern for the audit trail; the normal country accounting system is being used; and the national audit office is responsible for carrying out audits.

6.2 Progress in Public Financial Management

On the resource management side, new developments include continued improvements in budgeting and financial control. The new system records transactions instantly and has permitted expenditure reports to be produced on a daily basis. The system has also permitted consolidation of bank accounts into one bank account for the entire government. IFMS has also strengthened the capacity of sector ministries to record, monitor and control expenditures. The system has allowed government to introduce standardised coding for resource and expenditure items and this coding is now being applied to budgetary classifications in the recurrent and development budget. The intention is to use this standard coding to facilitate tracking of poverty expenditures through the budget. The extent to which the standard coding that is designed for financial controls can also be used for monitoring the alignment of the budget expenditures to PRS priorities remains an open question.

However, capacity gaps have also become more explicit. Some DPs feel that the public financial system needs to be reformed further for more efficient and effective resource allocation to be realized. These improvements would also give comfort to DPs who are still skeptical. The system however is still rolling to the regions and districts. In this regard greater attention should go to local level development management especially financial management.

Public expenditure tracking surveys are instructive and should continue to be institutionalized. Efforts are being made in the area of improving governance as one way of creating demand for expenditure tracking surveys and following up on those results. Reforms of the public financial management system continued hinging on PER, MTEF and an Epicor-based Integrated Financial Management System (IFMS). The implementation of the Public Finance Act, 2001 and the Public Procurement Act, 2001 and its improvements in 2004 have reinforced these.

Vested interests are often explicit in the process of procurement. The challenge of procurement needs to be addressed. The new procurement Act has addressed the challenge of capacity building, reflects more explicitly international standards and has removed thresholds.

In the LGAs, it is expected that control and monitoring of public expenditure is to be effected largely through locally operated IFMS (a system similar to the one used by central government agencies). A recent review has found that financial management at the council level is slowly improving and modern financial management and MIS are being rolled out (PORALG, 2004)²⁶ Currently, IFMS is covering already 32 councils (out of 117). The remaining councils are expected to be on board in 2005 and 2006. Other types of controls will be exercised through financial performance evaluation for accessing central government grants. However, it has been found that the internal audit function is absent or weak in most LGAs. Efforts to support strengthening of capacity of PORALG in financial oversight, reporting and monitoring systems should be stepped up.

6.3 Integration of Resources, Reporting and Accountability Systems

Ownership and strategic allocation of resources is supposed to be facilitated if all resources were subjected to the budget process. This would subject all resources to discussion and scrutiny and accountability and transparency would apply. This is a high priority concern by GoT.

6.3.1 Integration of Resources into the Budget

Working with government budget systems is more consistent with sustainability, reducing transaction costs and contestability of expenditures. Problems of capturing financial information occur both in ex ante and ex post budgeting. Progress is more advanced in the case of ex ante budgeting as reflected in budget estimates. More recently attention has turned more towards improving the ex post capture of disbursement information in the GoT exchequer system.

The share of aid resources that is reflected in the budget has continued to increase. The share of commitments of aid flows in projects (including basket funds) that are reflected in budget estimates has increased from 46% in 2001/02 to 76% in 2002/03²⁷. The amount received in the first quarter has increased from 50% in 2003/4 to 80% in 2004/05.

GoT has been urging donors to channel resources through the Exchequer and efforts have been made to assist donors to conform. During 2001/02 the Accountant General issued a circular to DPs describing the mechanism that they could use to channel their resources directly through the government exchequer account to development projects of sector ministries. As indicated before, training sessions were even held for interested DPs to enhance their capacity to cope with the set mechanism.

Aid channeled to districts by specific donors is still problematic. Some districts do not have any donor support while others have too many donors (e.g. about 30 in Ulanga district). Too many donors in one district bring complications of management of resources and can even contribute to corruption by overloading the public financial management systems. The GoT letter on fiscal decentralization has

²⁶ GOT PORALG. Local Government Reform Programme: Joint Government - Donor Review, Final Report. Dar es Salaam 1st December 2004.

²⁷ TAS Annual Implementation Report, FY 2002/03.

clearly indicated area-based programmes and how they should be conducted. What is needed is implementation. Donors have been advised to channel their resources through the Local Capital Development Grant Facility. TASAF II has been formulated in this new context.

Projects and large programmes not channelled through the budget are raising very fundamental challenges to public resource management and allocation according to prioritisation. In this respect, a large programme under the Global Fund has increased the risk of destabilisation and derailment of the processes of public resource management, to the extent it is a large programme and is not designed to be integrated into the government budget. President Mkapa referred to such programmes in his speech to CG meeting of 2002. The global funds have even bypassed UNAIDS and are bent to operate as a parallel system. This is a major challenge to harmonization. It is coached in framework of thinking of the 1970s on the role of aid driven by the philosophy of pushing money so solve development problems. It has been pointed out to us that the next round of the global funds is expected to be less distortive if it works more closely with government.

There are two other areas where progress is still on the low side. First, the capture of TA resources is still problematic, especially expenses incurred and money paid in the donor countries. Second, the capture of resources to NGOs and private sector projects is less complete.

6.3.2 Predictability of Resources

Predictability of resources has improved. In particular predictability of within the year disbursements has improved but the predictability of resources beyond one year is still a challenge. Improvement in public financial management systems has been identified as one factor which has contributed to improved predictability of donor resources.

There is evidence of increased predictability of resource flows and improved data on commitments and projections of resources. For instance, during 2003 about 70% of DPs indicated to Government their planned aid releases for the next 3 years. Similarly, 75% of the DPs reported comprehensive and regular data in aid disbursement. The GoT has established a mechanism of collecting full projections as part of the routine activities of the annual PER. The tracking and recording of resource commitments and actual disbursements has improved. GBS disbursements have improved considerably compared to commitments.

Since 2002/03 GBS disbursements have been 100% with 80% of the total amount committed being disbursed in the first half of the financial year. Disbursements within the first quarter of FY have increased from 8% in FY 2002/03 to 50% in 2003/04 and further to 80% in 2004/05. This development has facilitated smooth release of government funds during the year. Predictability especially as the aid delivery modalities shift towards GBS is likely to be influenced by the manner in which PAF is redefined. Conditionality incorporated in PAF should take into account the need to enhance predictability of resource flows.

Multiple and parallel reporting systems have been associated with high transaction costs. The policy is to harmonise reporting and accountability systems and align them to national systems. Some DPs have continued to insist on the use of their own reporting and accountability systems. In other cases DPs have indicated that they have been willing to use national systems but have been disappointed by responses from the GoT side. The experience of the MoEC was cited as case in point. DPs have claimed that they requested the MoEC to give them a reporting format that could be adopted by all DPs. The reporting system that MoEC gave to the DPs when they asked to be guided in this respect turned out to be different from the one the MoEC is actually using. This was interpreted to imply that MoEC was using more than one reporting system. The problem of parallel reporting systems is serious and it seems the MoEC has not taken the necessary steps to facilitate DPs to adopt one reporting system.

7.0 AID DELIVERY: EFFICIENCY AND EFFECTIVENESS

Recent developments including aid fatigue, actual or perceived corruption and modest achievements in reducing poverty combine to raise further questions about aid effectiveness.

7.1 Aid Dependence: Case for Exit Strategy

Concerns have been expressed about the dangers of deepening aid dependence, absorptive capacity constraints and the risk of macroeconomic imbalances and the associated Dutch disease. However, recent global level reports have expressed concern that the MDGs may not be achieved largely due to inadequate donor resources to developing countries (Millennium Project Report, 2005 and Report of the Commission for Africa, 2005). Both reports have recommended a doubling of aid to Africa if the MDGs are to be achieved. These proposals for more aid should be subjected to scrutiny in specific country contexts. In our opinion, even in countries where more aid is needed to achieve MDGs, the foundations for a smooth exit from aid dependence should be laid down. It is in this context that we argue that an exit strategy should part of the dialogue between DPs and governments. These should lead to a common understanding of exit leading to a common target for phasing out aid to the public sector budgets. This would create a mutual understanding of macroeconomic targets and a direction for the discussion on sustainability which very often is an empty phrase. We need to add though that a credible exist strategy can only be prepared and followed through with a strong leadership in economic and aid management.

The table below shows in principle how such targeting could be done in an aid-dependent country. The figures are not exact to Tanzanian levels but provide an idea of what this could mean.

Starting in 2004, public expenditures represent 30 percent of GDP, tax revenue 15 and the aid volume is about 10 percent of GDP. The a scenario of 7 percent GDP growth, 6 percent growth in public expenditures and a population growth of 2,5 percent takes place. The government manages to push the tax/GDP ratio from 15 to 19 and then to 23 percent of GDP. In 2024, the country then manages without aid altogether. Obviously, due to may years of aid dependency, the idea and need for the exit strategy with real time targets will require a political level commitment.

Table 2: An aid phase out scenario

Index	Year			Annual growth Percent
	2004	2014	2024	
Public expenditures	100	179	321	6
GDP index	100	197	387	7
Pub expend per capita	100	129	218	Pop growth 2,5
GDP per capita	100	152	226	
Percent of GDP:				
Public expenditures	30	27	23	

Index	Year			Annual growth Percent
	2004	2014	2024	
Tax revenue	15	19	23	
Primary deficit	15	8	0	
Aid volume	10	6	0	
Overall deficit	5	2	0	

7.2 Aid Modalities: Clarity in Government Preference

Concern has been expressed in many circles that the GoT has not been sufficiently explicit regarding what modality of aid is preferred under what circumstances. Where such preference has been expressed, it has not been made strongly with specifics on conditions and instructions to MDAs under which the GoT would be firm on the preferred aid delivery mechanisms.

Historically, project aid modality has been predominant. This modality may be permitted to operate only after meeting stipulated criteria. These criteria can be worked out in greater detail but the following should be included:

- ü Must operate within the government machinery, regulations and procedures.
- ü Must be subjected to contestability of resources in the budget process must be designed and implemented under the same conditions as other government funded projects.

The resistance seen among donors on their preferred aid modalities is often exaggerated, not appreciating sufficiently that aid is often more fungible than many DPs would like to acknowledge. In principle, a Government sets its own expenditure priorities through a political process, and then seeks to match those expenditure preferences to the sources of funding that it has available. If the donors have a stronger preference, for example, for primary education than does Government, then Government will reduce its own spending in this area in order to ensure that its own priorities get implemented rather than those of the donors. Aid is fungible: - if donors finance sector spending that Government would otherwise have funded from other sources, then the real effect of the aid is to release Government funds for some other purpose, possibly outside the sector. The empirical evidence shows that aid is at least partly fungible, though the extent of fungibility will depend on country circumstances and dialogue with donors. It is important to recognise that attributing 100% of aid to the sector where it is supposed to be spent is a strong assumption with little empirical foundation. It would be equally reasonable to attribute all types of aid, including project aid, in proportion to the share of each sector in total public expenditure. The truth probably lies somewhere between these two extremes. We cannot therefore assume that aid earmarked for spending on a priority sector actually leads to additional spending on that priority sector. The most important issue here is budget

management and enhancing the quality of the budget process as discussed in the previous chapter as well as ownership and leadership in the budgeting and overall development process.

The above discussion, notwithstanding, we can state that there are many advantages of the budget support mechanism. These are well known²⁸ and have been mentioned in this Report. Thus budget support:

- Increases predictability of resource availability and disbursement
- Promotes a coherent planning process, consolidating the resource envelope and diminishing the distinction between recurrent and development finance, together with curtailing line ministry access to “off-budget” finance
- Strengthens national ownership by emphasizing the national budget as the framework for identifying priorities and programming resource use
- Strengthens national systems and capacity by providing fund directly to the budget to be utilized through Government’s own systems
- Strengthens national accountability by using joint monitoring of indicators of outcomes, national accounting and audit functions, and
- Facilitates a more strategic donor dialogue with Government on policy

These advantages have still to be fully realized in practice. However, it has made a major contribution to donor harmonization. A recent study of budget support in Tanzania has found that GBS in Tanzania has had immediate effects in the five areas postulated in the framework (GBS, 2004)²⁹; namely:

- Ø It has dramatically increased the proportion of external funds subject to the national budget process, and in the process increased ownership of the development process.
- Ø It has helped to focus dialogue on the strategic issues of economic management, and in the process made some significant contributions to the design of policy.
- Ø It has helped to focus technical assistance and capacity building on core public policy and public expenditure processes, contributing to the process of institutional renewal which the Ministry of Finance has undergone over 1996 to the present.
- Ø It has made a major contribution to the alignment process.
- Ø It has made a major contribution to the harmonisation process.

²⁸ In the literature, it is also often mentioned that the cut in transaction cost is an advantage of budget support. A recent study of harmonization in six African countries by ECDPM contradicts this assertion. Discussion paper 36. June 2002.

²⁹ Joint Evaluation of General Budget Support: Tanzania 1995 -2004. Final Report. Report to the Government of Tanzania and the PRBS Development Partners. November 2004.

The GBS study (2004) referred to above has found evidence of the sorts of changes required and beginning to be put into place, facilitated by GBS. In particular, there have been important changes to improve the business environment and to improve the administration of justice. Macroeconomic fundamentals are in place and improvements are being made within the financial sector. GBS has supported these improvements by providing discretionary resources to facilitate macroeconomic management, by helping to strengthen the core agencies addressing these issues and by providing a framework for promoting dialogue on these questions and for exerting pressure for progress.

General Budget Support (GBS) has been growing as a modality for delivering aid. GBS in its present form was initiated in 2000/01 to support the implementation of PRS with 14 DPs participating through various facilities, notably, PRBS, PRSC and SAL/PRSL. The level of GBS has risen from TShs.274.6 billion in 2002/03 to Tshs. 405 billion in 2003/04. It is expected that GBS will reach Tshs. 434.5 billion in 2004/05. Basket funding has increased from Tshs. 141.8 billion in 2002/03 to Tshs. 191.2 billion in 2003/04 and is expected to reach Tshs. 270.4 billion in 2004/05. Project funding declined slightly from Tshs. 482.6 billion in 2002/03 to Tshs. 476.2 billion in 2003/04. However, it is expected to rise again to Tshs. 587.4 billion in 2004/05. Some DPs however, have made marginal increases in GBS seeing it as more symbolic than real commitment. At least four DPs have been seen to be operating more on the level of rhetoric.

GBS has been associated with greater ownership and more consistent with facilitating greater degree of budget management, contestability of resources and strengthened government systems for expenditure management initiatives. The chances of enhancing ownership and budget management are greater under conditions of a higher level of discretionary resources available to GOT, which the GBS modality permits. GBS has been positively used as discretionary finance. Other envisaged advantages and features of GBS compared to other aid modalities are as follows:

- Pooling of basket funds into a GBS type of arrangement would have the advantage of giving greater room for prioritization and facilitate more effective allocation of resources. GBS is more likely to lower transaction costs, enhance ownership and avoid unnecessary overstretching of capacity to manage many basket funds or project funds.
- GBS is likely to grow. Its growth would be facilitated well by enhanced trust making public financial management more effective and by making GBS more transparent with respect to conditionality. It has been expressed that the greater adoption of GBS will need to be accompanied by a higher level of trust among the partners and a much clearer strategy to protect both players (GoT and DPs) and give them comfort.
- On the GoT side the fiduciary risk assessment has been open and the GoT has been receptive. Fiduciary risk is actually high in projects although some actors have the illusion that it is higher with GBS.

- Where projects are dominant the level of ownership tends to be lower and the flow of information to the exchequer tends to be more problematic. Donors supporting those sectors seem to be better informed than the sectors themselves and MoF about the resources the channel into those sectors.
- There are cases where PMU are not integrated into government machinery but there are cases where PMUs are better integrated into existing systems. Projects have tended to be implemented in a manner that undermines government machinery and government systems, failed to achieve sustainability and not integrated into existing systems. The difference may be found in the capacity to design and negotiate projects. It has also been pointed out that the differences can be attributed to the nature of interests, which drive negotiations, and design of such projects. These interests are sometimes manifested in political pressure and various types of lobbying. The design of reporting systems often gives undue power to the DPs rather than to the government machinery. Because of their 'non-governmental' nature, in most cases funds for NGOs may not go through the Government. This should not be a problem where such information is fully divulged and 'captured' in aggregate data and finances are audited where applicable. The strengthening of reporting and transparency requirements will go a long way in this regard.
- Managing both projects and GBS is feasible. What is needed is an appropriate mix. The project modality should have a place even if the government prefers GBS for good reasons. In fact even under budget support, the final spending mechanism may have to be in form of a project. The challenge is to define the place and role of projects as one of aid modalities. Projects are not in themselves the problem. It is when they create 'perverse incentives' and operate outside the government machinery and avoid contestability of resources that they cause difficulties. These incentives can be computers, trips overseas, and vehicles all obtained outside the budget process where contestability of resources is supposed to take place.
- Projects can have built with mechanisms for flexibility, and with capacity building and designed in a way which brings innovations to bear. The SELF project by the ADB for instance has been operating outside the regular PFM system. However, it has positive lessons that can be learned from it. The project started with targeting poor regions in Tanzania but soon after operations started, it ran into absorptive capacity constraints in the poor regions. Plans were changed to enable it expand to 8 more regions to get round this problem. Two lessons have been drawn from experience with the SELF-project to date. First, a capacity building component for this micro-finance agency has now been included. Second, flexibility allowed some conditions to be relaxed.
- The challenge is to design and provide guidelines on how projects should be delivered to ensure that they do not undermine government machinery and systems, they are mainstreamed, they are consistent with achieving sustainability, low transaction costs and ownership.

- It should be recognized that this is a transition period and the main concern should be on how best to consolidate gains and positive changes that have been made and put them in the mainstream. Those DPs who are still grappling with the challenge of coping with GBS are likely to have even a greater challenge coping with JAS. Three categories of DPs may be identified as (i) supporters of GBS and have backing from the capitals, (ii) supporters of GBS but do not have support from capitals and (iii) those who fear losing control and flags because of growth of GBS. JAS should be able to put some pressure for the second group to convince their capitals on the importance of aiding to the national priorities and processes. They would come on board if reinforcement also comes from OECD/DAC/SPA initiatives.

We reckon that MFIs and other lending institutions that have traditionally operated on project lending may need to make significant adjustments to support non-project modalities such as baskets and GBS. We have in fact learnt that discussions on such transition have been initiated in those institutions with significant operations in Tanzania.

In practice, there has been a shift in the delivery of assistance from project to programme aid by many DPs, and more recently to budget support. SWAPs and basket funding fall within the programme support category. Many bilateral and some multilateral donors have had some experience with this approach. While bilaterals have been the main actors in these programme aid instruments there are several cases where multilaterals have participated in the new modalities. For instance, UNFPA is participating in the Health basket, while UNDP is managing the Election basket, IFAD is participating in the agriculture sector basket, the World Bank is participating in the Public Service Reform Programme basket, to mention a few.

Despite advantages of pooled funding arrangements, there are some risks ahead as basket funding if it becomes too much of a mechanism for donors to articulate their conditionality. This could undermine the process of enhancing ownership, another important goal pursued by the donor community. This is where JAS has to come in and lay down clearly the rules of the game. JAS should show that these developments present new opportunities for both bilateral and multilateral donors. The new opportunities should be tapped.

The challenge for the donors participating in a basket is to play an active role, even those who may be making small financial contribution to the basket. However, for some donors this may require a change in the profile of the staff engaged in policy dialogue as sector level or at higher level. Understanding of technical issues is important along with strategic vision, and good communication skills are essential for carrying out this work. Specialized multilateral agencies with in-depth understanding of specific sector issues but no funding to participate in a basket should be able to use their comparative advantages such as in providing technical assistance and engaging in capacity building in the high-level policy dialogue that the new funding modalities facilitate.

As indicated before, strategic and even operational links between budget support policies are weak. The links with MKUKUTA are not yet fully operational. These issues relate to strategic planning, budgetary techniques and PER work. What is at stake is the adoption of a robust accountability

framework centred on the use of the budget and the role of the legislative branch for checks and balance. Some bilateral donors and multilaterals have developed relevant expertise in these areas.

What does all this mean for TA demand? We need first to look at the changes that have taken place during the last decade in Tanzania, including: (i) the re-focus on poverty reduction, (ii) the shift from projects and SWAPs to budget support, (iii) a rapid development of human and institutional capacities of the country, and (iv) improved relations between donors and GoT. All this will mean that the traditional foreign long-term expert is no longer in great demand but there is an expanding market for sector managers and consultants in areas such as strategic planning, change management, aid coordination and social communication who can interface with and foster national capacities.

On the side of the DPs, in-house expertise on sector issues has been severely curtailed, replaced by budget and finance specialists needed for budget support, thus creating a potential gap.

7.3 Defining the New Role of Development Partners

There have been active consultations between donors and the government for the transformation and upgrading of TAS to the Joint Assistance Strategy (JAS). JAS is expected to align all participating donors' requirements, practices and process for preparing, delivering and monitoring aid to a single country assistance strategy. Once operational it should enhance participation, transparency and accountability through the Exchequer system. Subscription to JAS will be an opportunity for donors to reduce transaction costs for programme appraisal, negotiation and monitoring.

The concept of JAS comes at a time when donors have endorsed the idea of working within national priorities and processes in OECD/DAC. Even those multilateral donors who are not part of OECD/DAC have shown this endorsement. A case in point is the UN system where the UNDAF guidelines, recommend flexibility. An example of flexibility in the 2004 revision is the possibility of "replacing the CCA by a national document if it exists, or support can be given to a national process for producing such a document if there is one on-going". This is exactly what the Country Management Team did in Tanzania in early 2000. Another example of flexibility and adaptation to national processes in practice is the Poverty HDR (2003) in terms of joint analytical work. JAS can build on these best practices in development cooperation to be more assertive in its prescriptions.

The assertiveness is supported further by evidence from the results of a survey amongst partner Governments and development agencies working with the OECD/DAC Team on Harmonization and Alignment at country level in 14 pilot countries, which cites Tanzania as being "very proactive"³⁰. Indeed, in a recent Conference on Harmonisation and Alignment that brought several African countries to Dar es Salaam in November 2004, it was apparent that the experience of Tanzania was admired by other African countries.

³⁰ The survey also includes Ethiopia amongst the most pro-active. The OECD/DAC Task team was established to follow up on the commitments made at the Rome High-Level Forum on Harmonization held in Rome in February 2003.

7.3.1 Case of the UN Agencies

A recent Joint Strategic Review of the UN agencies in Tanzania has identified comparative advantages of UN agencies (UN-JSR, 2005). It has observed that as progress is made by the donors and the GoT sides to better understand how to reduce poverty and promote growth, it becomes clear that there are still insufficient national capacities in key sectors. It is observed that for the UN, a potential source of international expertise is available in the UN various specialized agencies. Often, however, the required technical expertise cannot be provided by a single agency leading to the need for coordination, particularly in the management of capacity development where UN agencies have differing comparative advantages. The UN System could see itself, over the medium term, as helping build government capacity in policy and programming areas in which there is currently an evident weakness. Likewise, building on its convening power, the UNCT should facilitate the dialogue around difficult inter-ministerial and inter-sectoral issues. The UN has a clear role in humanitarian issue. Its neutrality, its world wide experience in responding to the needs of refugees, its capacity to work across the humanitarian-development continuum makes the UN a natural leader in this field.

7.3.2 Case of Other Donors (Bilateral and Multilateral)

Here, a similar logic based on comparative advantages should be used. The task here will involve identifying comparative advantages among donors based on past experience and putting it to use their competences in the most effective manner.

MFIs like IFAD, ADB and others might find going "on budget" fully relatively difficult and even more so to completely align their loans with government financial systems and procedures. For each lending proposal, they have to satisfy their boards of directors, made up of multinational membership some of who are not represented in the PDG framework. They nevertheless subject the loan proposals to negotiation with the government so that any misalignment cannot be blamed entirely on the lenders. In spite of this limitation, however, some of the MFIs have started soul searching to see how flexible they can be to go along with the Tanzanian experience in SWAp support and GBS.

7.3.3 Recommendations

It is recommended that:

- In the dialogue between DPs and governments there should be a common target for phasing out aid to the public sector budgets. This would create a mutual understanding of macroeconomic targets and a direction for the discussion on sustainability.
- GBS should continue to be the preferred aid modality. This is because it is more consistent with greater levels of ownership and greater degree of budget management, contestability of resources and strengthened government systems for expenditure management initiatives. However, JAS should be more assertive on this preference.

- The project aid modality be permitted to operate only after meeting stipulated criteria. These criteria can be worked out in greater detail but the following should be included:
 - Must operate within the government machinery, regulations and procedures.
 - must be designed and implemented under the same conditions as other government funded projects.
- The principle of comparative advantages of various donors should be employed to determine what each donor is best placed to contribute in terms of previous experience. The task here will involve identifying comparative advantages among donors based on past experience and putting it to use their competences in the most effective manner.

8.0 TECHNICAL ASSISTANCE AND CHALLENGES OF CAPACITY BUILDING

The field work for this Report found that the TA aid modality has continued to be the most challenging in terms of continuing to be supply driven, with tied procurement and little built in capacity building. The matter is worsened by the absence of government policy on TA.

Several sector development partners have indicated that they are shifting away from making use of long-term expatriate specialists and of TA tied to project implementation and that they are engaging in capacity building which is needed if government is to take leadership in the reform process. The importance of capacity building is acknowledged in recent OECD/DAC guidelines on harmonization around procurement practices (2005). The centrality of capacity building is emphasised in this context.

Technical assistance in Tanzania is usually engaged to augment the capacity of Tanzania as a temporary gap filler to enable specific tasks to be carried out in the absence of adequate local capacity or to facilitate local capacity building in the process. The first type of technical capacity is TA that is supposed to augment the capacity of Tanzania and is expected to give priority to domestic capacity building. Technical assistance has been one of the most problematic aid delivery modalities. TA has been tied to finance, packaged into projects, not necessarily demand driven and sometimes has resulted in erosion or replacement of local capacities rather building those capacities. Sometimes the expediency and speed for delivery have prevailed over needs for sustainability and capacity building.

In spite of the problems faced in this aid modality, three positive approaches to providing TA have been observed in the way TA is being managed. First, there are cases of pooling technical assistance. TA pooling has worked well in PER process. Although TA associated with PER is a very small proportion of the total TA, it has shown that pooling is possible and that it works. Useful lessons can be learned from that experience and replication can be contemplated. Procurement of TA can be organized by sector or by specific programmes. The process should be incorporated in Tanzania e.g. selection and interviewing. The mode of recruitment, management and supervision should be fitted into the usual administrative machinery of government.

Second, there are cases of untying TA and subjecting its procurement to more open, transparent and competitive recruitment procedures. Untying of TA is challenging for most donors. Good progress has been made in some MDAs regarding TA procurement using this open and competitive procurement of TA. For instance, PO-PSM and TRA have successfully adopted a TA procurement system that is open and internationally competitive with a high degree of ownership. It is worthy emulating and scaling up.

Third, there is instance of providing TA on the basis of pooling of resources at regional level, thereby facilitating institutional capacity building in the process. This case is represented by the IMF's AFRITAC which was established in 2002 at the request of the Heads of State. It was established based on a study that was carried out on TA needs of the region. The aim is to extend IMF assistance beyond the traditional areas of balance of payments support and fiscal policy into public expenditure

management, revenue administration, monetary policy, banking supervision and statistics advising. The role of AFRITAC is likely to grow as demand for such TA support increases in the region.

AFRITAC provides TA to six countries by hiring consultants. Ownership is enhanced by subjecting determination of the work programme to the Steering Committee composed of representatives from the 6 countries as well as 3 representatives of the 15 donors who are involved. It sees its comparative advantage in giving insights into best practices and international experience needed to confront local problems. It also facilitates exchange of experiences.

Although, strictly speaking, it may not be categorised as technical assistance in the sense of development assistance, DPs support sector policy dialogue and analytic work by using their sector specialists. These experts play the role of enabling the DPs to engage more meaningfully in the policy dialogue in the sectors they are supporting. This kind of technical capacity is needed by the DP to augment the technical capacity of the specific donors to enable them cope with requirements of policy dialogue or policy articulation in the sectors to which the DPs are rendering support. However, this type of TA is significant because, in practice, sector specialists from DP offices have become quite influential by combining the power of their idea and the power to influence resource allocation into the sectors. In this sense, it may be a necessary step for DPs to adapt to changing demands on their policy work but it does not qualify as development assistance. It is more of an adaptation to changing demands of policy dialogue and enhancing the technical capacity of the DP offices to cope with demands of their work in the country. This occurs either because the specific DPs have decided to decentralise and transfer more decision making power to field offices or because the imperatives of shifts in aid modalities may have given greater prominence to policy dialogue and policy work and less attention to putting in place the capacity for project management.

Cooperation in technical policy work at sector level and other levels is warranted and should be encouraged. However, it should be delinked from the process of resources allocation by the DPs except in the context of contestability whereby a clear and open case for support is made to the budget process based on competitive proposals.

Government should come up with a clear policy towards technical assistance. The policy should consider delinking TA from financing and from projects to permit the use of TA for capacity building and to make it more demand driven based on identification of TA needs.

8.1 Recommendations

It is recommended that:

- (i) The recruitment procedures of TA be improved by making it more open and competitive and untied to the source of funds. This should be done by adopting mechanisms of pooling of resources earmarked for TA should be introduced in the form of a basket fund, which can then be used by the government to recruit competitively from the open market (locally and internationally).

- (ii) The GoT as well as DPs should address incentive structure which drives the behaviour which in turn militates against coordination and mainstreaming of projects into the sector activities.
- (iii) TA should primarily be devoted to capacity building in the public sector but CSOs and the private sector need to be considered also since these actors are supposed to be called upon to provide outsourced services in the public sector and to compete with their regional and international counterparts in their lines of business.
- (iv) In view of these experiences, it is recommended that the GoT should include in JAS a provision for establishing pooled TA funds to which DPs who already provide TAs would contribute funds to facilitate a transparent and competitive system of procuring specific TAs
- (v) GoT should prepare a comprehensive capacity building strategy and programme based on capacity needs assessment of the country at large and the government in particular.

9.0 CONCLUSION AND RECOMMENDATIONS

This final section clusters the main conclusions and recommendations of the 2004/5 IMG panel into four key issues: (i) strategic aid management and the quality of the budget process; (ii) reconciling (and harmonizing) interests at the sector and local government level (iii) deepening participation; and (iv) technical assistance and capacity development

The IMG is making the following conclusions and recommendations relating to GoT, DPs and the interaction between GoT and DPs.

9.1 For Government of Tanzania

9.1.1 Strategic Aid Management and the Quality of the Budget Process

The GoT has demonstrated greater realism and assertiveness about national objectives and priorities. The expression of these priorities in MKUKUTA shows encouraging progress. What is needed now is to elaborate these priorities in terms of sector-level strategic plans to deepen and guide the relationship between GoT and DPs in terms of resource allocation and preferred modalities of aid delivery.

Despite some progress, conditionality is still largely a one-sided (donor-driven) affair. It is recommended that traditional approaches to conditionality be replaced with the adoption of jointly agreed prior actions that are an integral part of the government's national development programme. This requires GoT prioritising a few strategic interventions from MKUKUTA as the basis for an agreed national development framework backed up by strong communication to all stakeholders at all levels of society, and a commitment to move forward effectively on a few fronts rather than ineffectively on many.

Public resource management has improved considerably. However, the weakest link is in the quality of the budget process. The budget does not yet function as the strategic policy and resource allocation tool it is supposed to be. In the policy-budget-service delivery chain the budget formulation is seen as the weak link. Priority interventions should be reflected more clearly in the budgeting process. The MTEF is reported to be working but it works selectively with wide variations between sectors. The link between priorities in strategic plans and budgeting (MTEF) needs to be strengthened to ensure that there is progress towards financing strategic planning and strategic thinking. The national priorities as expressed in key policy documents such as MKUKUTA are expected to be reflected in budget allocations. Greater realism and assertiveness about national objectives and priorities is required.

The TAS contains useful specifications of what good practices in development cooperation need to be adopted. However, the GoT has taken an inclusive and voluntary stance in its implementation. This has tended to mean that it has been implemented according to the lowest common denominator among the donors. It is recommended, therefore, that as the TAS is upgraded into the JAS, a more assertive and mandatory approach be adopted with a view to improving implementation according to the principles of good practice in development cooperation. In view of the changing circumstances in aid relationships and aid delivery mechanisms, the role of donors needs to be defined more clearly. The principle of

comparative advantages of various donors should be employed to determine what each donor is best placed to contribute in terms of previous experience.

The implication is that the GoT may have to be ready to take the risk of excluding uncooperative development partners. The GoT should develop common rules and modalities of operation and let DPs who want to stay out do so. Even if this action may mean getting less aid, the outcome could still be superior given the transactions costs of unaligned aid.

Concern has been expressed in many circles that the GoT has not been sufficiently explicit regarding what modality of aid is preferred under what circumstances. GBS should continue to be the preferred aid modality because it is more consistent with greater levels of ownership and a greater degree of budget management, contestability of resources and strengthened government systems. However, the JAS should be more assertive on this preference. The project aid modality may be permitted to operate only after meeting stipulated criteria. These criteria can be worked out in greater detail but the following should be included:

- Must operate within the government machinery, regulations and procedures.
- Must be subjected to contestability of resources in the budget process

Must be designed and implemented under the same conditions as other government funded projects. Monitoring and evaluation is beginning to be institutionalized but more needs to be done to consolidate the institutionalization process. It is recommended that the GoT defines more clearly what is to be derived from monitoring and evaluation, adopt one harmonized monitoring and evaluation system and institutionalize the process of learning from evaluations and reviews for improving the way forward.

It is recommended that the GoT takes leadership in policy dialogue and defines clearly the rules of the game in terms of how dialogue should be conducted and where and how DPs can add most value.

Linkages between national priorities on the Mainland (MKUKUTA) and those on Zanzibar (ZPRP) need to be clarified, both in terms of resource allocation and aid relationships.

9.1.2 Reconciling Interests at the Sector and Local Government Level

There is need to finalise an effective division of labour and of financial procedures between Central and sector ministries on the one hand and PO-RALG and Local Government Authorities on the other. This takes both legal and administrative processes

9.1.3 Deepening Participation

Participation in policy dialogue has been broadened and is becoming more institutionalized. However, the participation by the mass media and parliament should be enhanced. **The role of Parliament needs to go beyond the annual budget and influence medium term and long term planning and policy making. This may call for capacity building of Parliament and revisit the structure and processes employed. There is need to establish capacity needs in the area of research and technical support for Parliament, civil society and other actors. An independent research and analyses body for MPs is needed. The**

participation of the key stakeholders should be institutionalised in the processes of developing sectoral policies and strategies and strategic plans of MDAs.

The concept of public private participation (PPP) will need to be operationalised at the level of implementation; this is particularly crucial in public service delivery in local development.

9.1.4 Technical Assistance and Capacity Development

- Ø There is need to develop a national TA policy. The policy should consider lessons from TA pooling and transparent recruitment procedures with a view to delinking TA from financing to permit the use of TA for capacity building and to make it more demand driven based on identification of TA needs.
- Ø Focus on capacity building, articulated through a clear long term strategy, and building out from existing knowledge and understanding within GoT on capacity building needs. Support of capacity building in the private sector and CSOs should be part of this consideration. In view of previous experiences with TA, GoT should include in JAS a provision for establishing pooled TA funds to which DPs would contribute funds to facilitate a transparent and competitive system of procuring the specific TAs.

9.2 Good Practices in Relationships among Development Partners

9.2.1 Strategic Aid Management

DPs should put in place mechanisms for appropriate briefing of capitals and OEDC/DAC on progress being made in implementing the Rome and Paris Declarations and other internationally agreed principles of best practices in development cooperation.

DPs should accept, consistent with the Rome and Paris Declarations, to give space for country-leadership and ownership to take root. In this spirit DPs should give appropriate space to the GoT to work out a more firmly binding JAS. The basis of the fear among DPs that Tanzania left alone would make mistakes should be addressed and its basis understood better because this is the basis for undermining ownership and GoT leadership. Such fears should be translated into capacity building initiatives to address the deficiencies and as appropriate identify incentive structures that may be driving the behaviour which mitigates against convergence to agreed practices.

The role of lead donors and other donors should be clarified. The main elements that must be included in that definition are: taking the lead in donor coordination and facilitating and organizing support to national development efforts and initiating necessary changes in their own policies and procedures that are needed to allow greater space for Tanzania to address its development challenges.

The JAS should define more firmly the role of DPs, distinguishing the role of bilaterals and multilaterals. DPs who have been engaged in innovative pilots should bring the lessons forward in policy dialogue and together with other stakeholders examine the possibilities of up-scaling into sector wide policy action. All DPs should channel funds through the exchequer.

- Ø Pooling of funding can help reduce the burden on government so long as the pooling arrangements do not create additional unworkable demands. Conditions under which pooled funds can be withheld should be discussed and agreed upon with a view of enhancing ownership and promoting stability and predictability in resource flow.
- Ø Working strategically in collaboration. A day or so set aside for 'retreat meetings' can be more effective than 2-4 meetings a month for an hour or so at a time, where bigger picture issues cannot be resolved.

9.2.2 Reconciling Interests at the Sector and Local Government Level

There should be a forceful drive (within specific sectors) to encourage development partners (particularly the multilaterals) to move away from project-based approaches in favour of sector-wide modalities of support. This stands to benefit local ownership and lower transactions costs.. DPs who are supporting specific sectors should be required to move towards sector-wide funding modalities through common procurement and reporting arrangements, avoidance of earmarking, and parallel persistence with discrete projects.

- Ø Sector specialists and Heads of Agency are not always consistent about harmonised approaches. Strengthened internal communication and dialogue would help eliminate some of this.
- Ø Sector specialists should contribute to policy dialogue, a contribution that should be separated from direct advice on allocation of resources, except through an open competition for public resources based on openly debated arguments and consistent with national priorities.

9.2.3 Technical Assistance and Capacity Development

- Ø Development Partners (DPs) should look to untying TA with respect to project funding. The Development Partners Group (DPG) should develop and agree on a working definition of what it means by harmonisation and alignment to facilitate common interpretation at the operational level, work out a time-bound action plan and present it to GoT.
- Ø Building institutional memory among DPs so that new expatriate staff arriving in country get a collective DP picture, rather than from a single agency. Orientation and briefing of new staff should take a long-term perspective on poverty and reform covering the historical perspectives as well as the immediate situation in a sector.
- Ø Consider longer tours of duty for expatriate staff and ensure that they work within the GoT machinery and systems. Draw effectively on the expertise of their own local staff.
- Ø Greater interest and use of the national language will facilitate better audience with the CSOs especially in participatory forums.

- Ø Professional appraisal of individual expatriate staff could give credit for indepth understanding of country specific issues as much as for keeping up to date with international debates, and for credibility with GoT partners as well as in the DP group. Team players are more useful than officers keen to make an individual mark over a single tour of duty.
- Ø There is a need to identify and eliminate the confusing signals that are given out by shifting from one aid delivery modality to another (to sector or budget support and developing new projects at the same time). A better way is to liaise with GOT to establish a clearer appreciation of the comparative advantage of different funding instruments (project, sector support etc) in different circumstances, and use them accordingly.
- Ø DPs should move towards giving greater space to the GOT to apply its national procurement procedures in an open and competitive manner.

9.3 Good Practice Between Government and DPs

- Ø The challenge to invest the time to come to a genuine understanding. This is a serious challenge against the current imbalance of power in donor / recipient relationships and the Tanzanian historical familiarity with 'being told what to do', either during colonialism or by a top-down planning tradition or by the way the first generation of structural adjustment was designed and implemented. High-level dialogue in key policy issues should be guided by clear national objectives and priorities. There needs to be a clear and common understanding of the terms 'leadership', 'ownership', 'partnership', 'accountability', and their practical implications.
- Ø Agree on a few priorities and agree to abide by strategic plans and aligning to national processes.
- Ø It is generally agreed that transaction costs need to be reduced. The real challenge is in identifying ways of reducing these transaction costs in practice. The experience of GBS and PRBS has suggested that GoT leadership is the single most effective way of reducing transaction costs.
- Ø Acknowledge and work to address the capacity gaps which exist on both sides. More can be done by insisting that DPs do more to understand country specific issues and challenges.
- Ø Pushing money in as short a time as possible aggravates rather than solves development problems; there needs for clear thinking about the kinds of issues which can often be addressed by an injection of cash and those that require at least as much thinking and learning as spending (such as building local accountability).
- Ø Ensure that new equally damaging mind-sets are not being created around aid dependence, rushing reforms through rather than thinking through and permitting unsustainable incentive structures to prevail such as workshop allowances which supplement a meagre salary, as

opposed to embedding training around strategic reforms to improve government services into an individual's core job.

- Ø There is need to revisit the role of the Development Cooperation Forum. In our opinion, the way it has been proposed to be reconstituted promising and should be supported. Considering the good progress that has been made towards reconstituting the DCF. It is recommended that it proceeds to meet and address high level governance issues and any other high level cross-cutting issues and find a solution for them before they grow to unmanageable proportions. The smooth functioning of these institutions will address outstanding high-level cross-cutting issues before the grow to unmanageable proportions.

9.4 Exit Strategy: Towards Smooth Transition from Aid Dependence

- Ø In the dialogue between DPs and governments there should be an agreed target for considering phasing out aid to the public sector budgets over the long term. This would create a mutual understanding of macroeconomic targets and a direction for the discussion on sustainability. This objective should be mentioned in the JAS.

9.5 Next Steps

It is anticipated that the recommendations will most likely be taken up; but there is also a risk of neglect. Risk management and mitigation should be considered. For instance, involving the media, organizing launching with the media present and outsiders and key insiders involved may enhance the chances of taking the report forward. Deeper discourse may be needed between selected DPs and GoT.

The role of IMG and how its recommendations are followed up should be spelt out in the JAS. The current Report carries many recommendations which certainly cannot be implemented all at once. They need to be examined strategically to identify what can be taken on board in the short term, the medium and long term.

ANNEXES

Annex I: Progress since the 2002 IMG Report

Issues raised/recommendations in IMG Report 2002	Status as of 2004/5
Need to strengthen existing avenues of dialogue between GoT and DPs. e.g to work out an appropriate division of responsibilities between the Joint Secretariat and the Donors Cooperation Forum (DCF).	<ul style="list-style-type: none"> Ø Dialogue at technical level strong, especially with central coordinating ministries Ø Forum now named Partners Development Group (DPG) Ø Division of labour between DPG and Joint Secretariat appears in respective responsibilities documented for each body
The Development Co-operation Forum run out of the President's Office does not meet very regularly.	Ø Development Co-operation Forum meetings is still not regularly held. - Issue of appropriate membership pending.
The GoT should direct all relevant line ministries to induce donors to move away from project-based approaches in favour of SWAp-style arrangements.	<ul style="list-style-type: none"> Ø Experience of GBS and PRBS has demonstrated government leadership Ø But disconnect between the central and sector ministries still occurring Ø Large projects have been reported in Agriculture
GoT to further strengthen public expenditure management and accountability so as to persuade donors to continue moving toward budget support (BS).	Ø This is an ongoing effort including: increased staffing of relevant agencies and departments in MoF, use of IFMS network and EPICOR/MME computerised systems to harmonise and track expenditures, continued reform of the procurement regime and satisfactory performance under PER framework
IFMS application should be strengthened and extended to all Districts.	Ø IFMS being rolled out slowly (32 out of 117 councils covered) due lack of resources and suitable infrastructure.
Reporting of aid flows by donors remains highly unsatisfactory; local DAC group target is for 50% of development assistance to be recorded in GoT accounts for FY 2002/03.	Ø Progress is more advanced in getting data in ex-ante budgeting than ex-post budgeting, with budget estimates increasing from TZS 275 billion to TZS 624 billion in 2002/03 and data by donors reflected in the budget (ex ante) increasing by 50% in two years (by 2003/04)
The problem of divergence between commitments and disbursements continues to persist.	Ø There is impressive improvement: the disbursement to commitment ratio has increased from 46% in FY2001/02 to 76% in FY2003/04
With experience gained, all major sectors should develop SWAps to policy reform and expenditure programming in a holistic manner.	Ø This is still a challenge especially in agriculture and education, with other sectors (except health) situation even less apparent.
Agricultural Sector Development Programme was still under preparation in 2002.	Ø ASDP is now in place and operational
Mobilisation of domestic savings should be stepped up by accelerating financial sector reforms.	<ul style="list-style-type: none"> Ø Subject not directly raised in current Report as performance of TRA has been quite good Ø Income Tax Act of 2004 passed; aimed at streamlining taxation of incomes
Number of genuine interlocutors in ministries is quite limited, receptivity to dialogue highest in MoF and good in a few of the line ministries; thus very uneven coverage of SWAps.	<ul style="list-style-type: none"> Ø number of active change agents is still limited Ø spread of GoT leadership is uneven and limited also

Issues raised/recommendations in IMG Report 2002	Status as of 2004/5
Strengthen MTEF to translate SWAps into 3-year rolling annual budget thereby aligning donor commitments with GoT's strategic objectives and accountability procedures.	<ul style="list-style-type: none"> Ø PER/MTEF frameworks being used for resources allocation in rolling annual budgets, though quality still poor and uneven Ø Strategic objectives in annual budgets not so visible
Public expenditure management and accountability be complemented by more vigorous efforts to secure compliance with the anti-corruption measures so as to demonstrate determination.	<ul style="list-style-type: none"> Ø GoT has not adequately communicated its efforts to reduce corruption through various measures and reforms such as Public Service Management Reform Programme and Public Finance Management Reform as well as PCB discreet actions to plug loopholes for corruption in selected institutions. Ø The Legal Sector Reform has been initiated primarily to improve justice and root out corruption Ø Public expenditure tracking studies being carried out
Develop further and integrate PER processes with MTEF process: <ul style="list-style-type: none"> o ensure full participation of line ministries o bring Districts within the process and o include the development as well as the recurrent budget. 	<ul style="list-style-type: none"> Ø participation not yet full Ø PER/MTEF processes not yet articulate at district level Ø implementation of merger is ongoing but slowly
Due to increased role of PER/MTEF and other fora, rationalise role of periodic CG meetings, to reduce transactions costs for all parties.	<ul style="list-style-type: none"> Ø This issue is still pending
Treasury to familiarise donor staff with the procedures for bringing all aid inflows within the budget.	<ul style="list-style-type: none"> Ø Training sessions for DP officers were held
GoT should undertake a national capacity needs assessment of priority areas of intervention in more activities than just for monitoring PRS	<ul style="list-style-type: none"> Ø This issue is still pertinent
Speeded up pay reform in consistency with capacity building, instilling integrity and fighting corruption.	<ul style="list-style-type: none"> Ø Pay reform has not been specifically highlighted in current Report but the reform is in progress
Press ahead with decentralisation and to give Districts more genuine fiscal and other responsibilities.	<ul style="list-style-type: none"> Ø The decentralisation process continues albeit with slow speed Ø SWAps and baskets have sometimes acted as centralising forces rather than supportive of empowerment of districts Ø Study underway on LGAs generation of own resources
GoT should explicitly adopt a strategy for reducing aid dependence; enshrine this objective in next edition of TAS, including specific measures and targets.	<ul style="list-style-type: none"> Ø This issue will hopefully be brought up in JAS in context of achieving MDG goals
GoT should further set out its preferred forms of aid; the GoT should be more willing to say No.	<ul style="list-style-type: none"> Ø Government has indicated preference for Budget support but this position is not put clearly or strongly enough. Ø GoT has continued to avoid saying NO: unjustified fear of scaring away donors is main reason
TAS should be developed to turn it into a more operational document focusing specifically on aid-relation issues; incorporate prioritised harmonisation principles, which the GoT can use to lead aid co-ordination matters.	<ul style="list-style-type: none"> Ø TAS operationalised with Action Plan 2002/03 Ø TAS Annual Implementation Report FY2003/04 highlights steps and results of measures taken to put TAS into practice; many cited in current IMG Report

Issues raised/recommendations in IMG Report 2002	Status as of 2004/5
	<ul style="list-style-type: none"> Ø Study was launched in 2002/03 to identify scope of rationalisation and harmonisation of processes and consultative mechanisms
Enhance staffing and other resources of the MoF to improve aid coordination.	<ul style="list-style-type: none"> Ø More financial and manpower resources allocated to key departments in MoF dealing with aid coordination and funds (External Finance, Budget, Accountant General's department)
Full logic of SWAps entails government to be fully in driver's seat; with common procurement and reporting arrangements are adopted by DPs, with no earmarking, and parallel systems outside SWAps.	<ul style="list-style-type: none"> Ø GoT leadership demonstrated in MKUKU TA preparation Ø Implementation of TAS is lead by MoF through Joint TAS Secretariat Ø Insistence by donors on own procurement procedures still ongoing Ø Reporting on aid information by DPs significantly improved Ø Very little earmarking of funds in SWAps still existing Ø Parallel practices by donors outside SWAps in same sectors still common
Sectoral ministries need to play their full role in developing SWAps, with holistic sectoral outlook (e.g. in agriculture).	<ul style="list-style-type: none"> Ø This problem still persisting especially in agricultural issues
In the context of SWAps and MTEF, establish agreed mechanisms for resolution of disputes and against sudden withdrawal of aid.	<ul style="list-style-type: none"> Ø In agriculture an Agricultural Sector Working Group has been established to promote dialogue Ø Meeting between DPs and ministers for Finance and for Agriculture eased up tense relations in agriculture
Move toward pooled untied demand-driven TA resources in TAS framework.	<ul style="list-style-type: none"> Ø Tied TAs have been cited in the current Report in a number of sectors and practiced by a several donors Ø But pooling of TA resources is being practiced even if without an overall policy or strategy (e.g. in PER funding)
Establish 'quiet times' when no missions or other consultations with GoT are held.	<ul style="list-style-type: none"> Ø Quiet times are generally observed
In context of sectoral support, donors should accept the principle of selectivity, and 'lead donors' to avoid the competitive over-crowding in favoured sectors.	<ul style="list-style-type: none"> Ø Concept of lead donors is now evident in sector work Ø Yet, there is still lack of coordination among partners in the spread of sector interventions
Donors should continue trend of building up local expertise to enhance decision-making in Dar offices.	<ul style="list-style-type: none"> Ø This is reported to being done as witnessed through participation in PER sub - group
Evaluations of aid relationship should be undertaken every two or three years.	<ul style="list-style-type: none"> Ø Current Report is evidence of response

Annex II: Taking stock of the ASDP

Element	Status of ASDP	Challenges/issues
A clear sector policy and strategy	ASDS was developed in 2001 Several policies in place for sub-sectoral themes (livestock, marketing) The 1999 Regional Administration Act and recent circulars clearly sets roles for different Ministries and the LGAs.	Some roles written down, but modalities of re-aligning roles as a consequence of de-centralisation at national level and ways of working across ministries not in place. Farmers still expect government to play different role, e.g. price setting, input supply etc.
A medium term expenditure programme for the sector	Each ASLM has its own MTEF and there are DADPs at local government level with MTEF at PO-RALG level. Moves towards a consolidated MTEF at national and local levels, through integrating DADPs into the DDP initiated	Further clarity is required as to the relationship between the proposed basket and the MTEF. Interface of sector and LGA MTEF to be defined
A performance monitoring system that measures progress towards the achievement of policy objectives and targeted results	ASDP will not have its own M&E system. PlanRep is designed to report on financial and physical performance at district level and has the capacity to aggregate the results. NBS sample survey offers a good basis not only to validate ASDP – its original purpose is to provide a baseline – but also to identify interventions. What about measuring the strategic areas of the ASDS...Is the PER an appropriate hook here assuming its set up for GoT, and not donor needs? Generally M&E is geared towards assessing the quality of public project exp for donor validation purposes rather than strategic interventions that will have more far reaching impacts.	Most M&E geared towards validating interventions for donors that have parallel systems, not to helping the GoT accountable to its own citizens through aligning themselves to PlanRep and the district monitoring database, components of the Poverty Monitoring Master Plan. Concern over how monitoring poverty may dominate M&E debate and re-centralise Higher level monitoring of policy and more evaluative aspects of on the ground results need developing
A formalised government-led process for aid coordination at sector level	FASWOG ???supposingly Among ASLMs, and with MoF and other ministires that impact on growth prospects of agriculture?	Its objective is unclear. MoF not there. ICC and NSC and no MoU as yet that defines the rules of engagement that got uses to hold donors to account. No lead donor
Arrangements for programming of flexible and predictable sector funds	Yes, patchy – ASSP More predictable than flexible, but....	The basket fund proposed for ASDP needs to demonstrate how it links to/deepens the MTEF process at both national and district levels
An agreed process for moving towards harmonised systems for reporting, budgeting, financial management and procurement	No, but context is set under PlanRep and its links with MTEF at district level which provides a useful basis into which DADPs can evolve and be reported against	Process needs defining and need to ensure that this not lobbed into the design of the basket as the unified process. Need to ask questions : which aspects of harmonisation will bring greatest beenfits and how their costs compare? Plus better a few like minds than lots of unlike minded donors.

Element	Status of ASDP	Challenges/issues
		Donors should monitor their progress towards harmonisation based on indicators agreed with got (IMG report on Aid harmonization)
Broad consultation mechanisms at local and national levels (this element overlaps slightly with M&E)	DADPs and DASAC both fledgling mechanisms that offer exciting opportunities. Pre-occupation with relationship between donors and ASLMs at expense/neglect of other stakeholders at national and local levels. Means of consultation tends to be quite formal. ICC ? TFs have not adequately performed as a broad based consultation mechanism	Less formal mechanisms need exploring such as Client satisfaction surveys (see above) and modalities of engaging the private sector – service providers – at local level
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Annex III: List of People Interviewed

Gray Mgonja	-	PS MoF
Peniel Lyimo	-	PS MoF
Joyce Mapunjo	-	Commissioner External Finance- MoF
Mrs Mary Mushi	-	PS VPO
Paschal Assey	-	VPO
Ms Masenga	-	MoEC
Z. Kimaro	-	State House
Elikana Balandya	-	Ministry of Finance (MOF)
Naftali Jimreeves	-	MoF
Dorin Broska	-	MoF
Mark Temu	-	MoF
Ibrahim Abubakar	-	MoF
Miharu Furukawa	-	MoF
Ingiahedi Mduma	-	MoF
Blandina Nyoni	-	Accountant General- MoF
Ms Gertrude Mugizi	-	NPF
C.F. Ngangaji,	-	Ag District Executive Director/ Ag. District Planning Officer/District Commercial Officer, Bukoba District Rural Council
R. K. Rwiguza	-	Regional Technical Advisor- Planning Office, Kagera
E. Anyosisye	-	Planning Officer, Kagera Region
Marten Lumbanga	-	Chief Secretary- State House
Kanyasi	-	PORALG
Daniel Ticehurst	-	ASDS Secretariat, MAFS
W. Ngirwa	-	Permant Secretary MAFS
Jane Bitegeko	-	Director of Planning and Policy MAFS
C. Nyakimori	-	Secretary to ASDS Task Force I
Mary Mwingira	-	Executive Director TANGO
D.C. Mchemba	-	Chamber Development Officer, TCCIA
M.K. Simba	-	Chamber Development Officer, TCCIA
Richards Mkumbo	-	Health Economist, Department of Planning and Policy, MoH
Ben Kasege	-	Outcome Manager Governance, LGRP
Joseph Malya	-	Outcome Manager Local Governance Finance, LGRP
David S. Mfwangazo	-	Morogoro Regional Administrative Secretary
Grayson W. Kikwasha	-	Assistant Administrative Secretary, Morogoro Region
Maurice Sapaijo	-	District Executive Director Morogoro Rural District Council,
Susan Bidya	-	Executive Director, Dodoma District Council Rural
Ken Neufeld	-	CIDA
Grant Hawes	-	CIDA
Neema Siwingwa	-	CIDA
Anne Stodberg	-	SIDA/Swedish Embassy
Marriane Kronberg	-	SIDA/Swedish Embassy

Liz Ditchburn	-	DFID
Gerald Howe	-	DFID
John Piper	-	DFID
Naoki Yokobayashi	-	Embassy of Japan
Hiroyuki Kinomoto	-	JICA
Mamoru Endo	-	Embassy of Japan
Amb. Pedersen	-	Royal Danish Embassy
Jacob Dal Winther	-	Royal Danish Embassy
John Hendra	-	UNDP
Ingrid Cyimana	-	UNDP
Phillip Courtnadge	-	UNDP
Dr. Inger Rydland	-	Norwegian Embassy
Ali Abdi	-	IMF Res Rep.
Sarr	-	IMF/AFRITAC
Brendon McGrath	-	Embassy of Ireland
Andrew Felton	-	PRS Team Administrator, British High Commission DSM
Hady A. Riad	-	Head of Division for Development, German Embassy, DSM
Nicolai Ruge	-	Royal Danish Embassy