

SUBMITTED TO:



THE UNITED REPUBLIC OF TANZANIA

MINISTRY OF FINANCE AND ECONOMIC AFFAIRS
EXTERNAL FINANCE DIVISION

FINAL REPORT

ASSESSMENT OF EFFECTIVENESS OF DEVELOPMENT COOPERATION/EXTERNAL RESOURCES AND PARTNERSHIP PRINCIPLES IN CONTEXT OF THE MKUKUTA AND MKUZA REVIEW

Submitted by:



Economic and Social Research Foundation
51 Uporoto Street (Off. Ali Hassan Mwinyi Rd.) Ursino Estate
P.O.Box 31226 Da es Salaam
Tel +255 22 2760260, Fax +255 22 2760062

www.esrftz.org

23rd September 2010

TABLE OF CONTENTS

LIST OF ABBREVIATIONS	4
ACKNOWLEDGEMENTS	7
EXECUTIVE SUMMARY	8
0.1 INTRODUCTION.....	8
0.2 OBJECTIVES AND METHODOLOGY	8
0.3 MAIN FINDINGS AND RECOMMENDATIONS	9
0.3.1 <i>Volume and Anatomy of Aid Flows</i>	9
0.3.2 <i>Progress in Aid Effectiveness</i>	15
1.0 INTRODUCTION AND BACKGROUND	26
1.1 BACKGROUND TO THE REPORT	26
1.1.1 <i>The Tanzanian Context</i>	26
1.1.2 <i>Trends in international development cooperation</i>	28
1.2 THE CURRENT ASSIGNMENT	29
1.2.1 <i>Objectives of the Assignment</i>	30
2.0 APPROACH AND METHODOLOGY	32
2.1 DEFINITION OF AID EFFECTIVENESS.....	32
2.2 METHODOLOGY	32
3.0 MAIN FINDINGS OF THE STUDY	34
3.1 ANATOMY OF AID FLOWS	34
3.1.1 <i>Assessment of overall ODA allocations</i>	34
3.1.2 <i>Aid Modalities: Composition, Trends and Effectiveness</i>	38
3.1.3 <i>Analysis of Vertical Funds and Special Off-Budget Programs and Utilization</i>	46
3.1.4 <i>Non-OECD/DAC External Financing Flows</i>	49
3.1.5 <i>Technical Assistance Policy</i>	58
3.2 PROGRESS IN AID EFFECTIVENESS	63
3.2.1 <i>Assessment of Progress in the Principles of Aid Effectiveness</i>	63
3.2.2 <i>Assessment of the dialogue: GoT, DPs and non-state actors (NSAs)</i>	85
3.2.3 <i>Lessons from Selected Sectors/Areas</i>	102
4.0 ZANZIBAR	120
4.1 ANATOMY OF AID FLOWS	120
4.1.1 <i>Assessment of overall ODA allocations</i>	120
4.1.2 <i>Aid Modalities: Composition, and Trends</i>	129
4.2 PROGRESS IN AID EFFECTIVENESS	132
4.3 CONCLUSION AND RECOMMENDATIONS FOR ZANZIBAR	134

5.0	CONCLUSION AND RECOMMENDATIONS	136
	<i>5.1 Conclusions</i>	<i>136</i>
	<i>5.2 Recommendations.....</i>	<i>140</i>
APPENDICES		147
	<i>Appendix A:</i>	<i>147</i>
IMPLEMENTATION OF THE REPORT: ACTION MATRIX		147
	<i>Appendix B.....</i>	<i>153</i>
TERMS OF REFERENCE		153
	<i>Appendix C</i>	<i>157</i>
OFFICIALS MET/CONTACTED		157
REFERENCES:		160

LIST OF ABBREVIATIONS

AfDB	African Development Bank
AMP	Aid Management Platform
BOT	Bank of Tanzania
CAG	Controller and Auditor General
CD	Capacity Development
CDB	China Development Bank
CSO	Civil Society Organization
CWG	Cluster Working Group
DCF	Development Cooperation Forum
DPG	Development Partners Group
DPs	Development Partners
EPA	External Payment Account
ESDP	Education Sector Development Programme
EU	European Union
FBOs	Faith Based Organizations
GBS	General Budget Support
GDP	Gross Domestic Product
GEF	Global Environment Facility
GFATM	Global Fund for Aids Tuberculosis and Malaria
GOT	Government of Tanzania
IDA	International Development Assistance
IDI	India Development Initiative
IFMS	Integrated Financial Management System
IHP	Ifakara Health Project
IMG	Independent Monitoring Group
JAST	Joint Assistance Strategy for Tanzania
JCG	Joint Coordination Group
LGAs	Local Government Authorities
JISR	Joint Infrastructure Sector Review
JTC	Joint Technical Cooperation
LGR	Local Government Reform

MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MDAs	Ministries, Department and Agencies
MDGs	Millennium Development Goals
M&E	Monitoring and Evaluation
MHSW	Ministry of Health and Social Welfare
MKUKUTA	Mkakati wa Kukuza Uchumi na Kupunguza Umaskini Tanzania
MKUZA	Mkakati wa Kukuza Uchumi na Kupunguza Umaskini Zanzibar
MOFEA	Ministry of Finance and Economic Affairs
MOU	Memorandum of Understanding
MSD	Medical Stores Department
MTEF	Medium Term Expenditure Framework
NGOs	Non Governmental Organizations
NSAs	Non-State Actors
NSGRP	National Strategy for Growth and Reduction of Poverty
NTP	National Transport Policy
ODA	Overseas Development Assistance
PAF	Performance Assessment Framework
PBAs	Programme Based Approaches
PCCB	Prevention of Corruption Bureau
PD	Paris Declaration
PEDP	Primary Education Development Programme
PEFAR	Public Expenditure and Financial Accountability Review
PEPFAR	Presidents Emergence Plan for Aids Response
PER	Public Expenditure Review
PFMRP	Public Finance Management Reform Programme
PMO – RALG	Prime Minister’s Office Regional Administration and Local Government
PMU	Project Management Unit
PPRA	Public Procurement Regulatory Authority
REPOA	Research on Poverty Alleviation
RFE	Rapid Funding Envelop
SSA	Sub-Saharan Africa

SWAPs	Sector Wide Approaches
TA	Technical Assistance
TAS	Tanzania Assistance Strategy
TAZARA	Tanzania and Zambia Railway Authority
TC	Technical Cooperation
TGNP	Tanzania Gender Network Group
TOR	Terms of Reference
TSIP	Tanzania Sector Investment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFP	United Nations Food Program
UNHCR	United Nations High Commission for Refugees
UNICEF	United Nations Children's Fund
WHO	World Health Organization
ZSGPR	Zanzibar Strategy for Growth and reduction of Poverty
ZPRP	Zanzibar Poverty reduction Plan

ACKNOWLEDGEMENTS

The Economic and Social Research Foundation would like to thank the team of five experts who undertook this assignment. The IMG team consisted of:

- Prof. Samuel Wangwe** - **Team Leader. Principal Research Associate at ESRF and Consultant at Daima Associates Ltd**
- Prof. Lennart Wohlgemuth** - **Professor at the School of Global Studies, University of Gothenburg**
- Prof. Haidari Amani** - **Principal Research Associate at ESRF and Consultant at Daima Associates Ltd**
- Dr. Marcellina Chijoriga** - **Senior lecturer in Finance at the Business School at University of Dar es salaam, Tanzania**
- Mr. Deo Mutalemwa** - **Consultant in Dar es Salaam, Tanzania.**

The work of the team was greatly facilitated by the services of Mr. Apronius Mbilinyi and Ms Vivian Kazi of ESRF who provided research assistance in collecting and analyzing data and in managing logistics of the study.

The ESRF would like to thank all the stakeholders who cooperated with the team in granting time for interviews and in providing the information that was needed to complete this assignment. Finally the Foundation thanks the Ministry of Finance and Economic Affairs for sponsoring the study. The team of consultants takes responsibility for the views expressed in this report.

DR. H.B. LUNOGELO

EXECUTIVE DIRECTOR

ECONOMIC AND SOCIAL RESEARCH FOUNDATION

2ND JUNE 2010

EXECUTIVE SUMMARY

0.1 Introduction

This report has been prepared in the context of the overall objective of the JAST which is to have external resources contribute to sustainable development and poverty reduction in line with the National Vision 2025 and the Zanzibar Vision 2020 as well as MKUKUTA and MKUZA. This is to be achieved by consolidating and coordinating Government efforts and Development Partners' support under a single Government-led framework. The report has recognized the changing trends in international development cooperation.

0.2 Objectives and methodology

The key objective of the assessment is to determine how external finance/ODA supported the implementation of the ongoing MKUKUTA and MKUZA and how it can most appropriately continue doing so under MKUKUTA II and MKUZA II. In this context, the assessment has addressed two key sets of questions:

- (i) The first set of questions concerns the size and anatomy of aid flows, including the evolution of aid and its impact over the 2005/6-2008/9 period.
- (ii) The second set of questions relates to aid effectiveness including the performance of aid modalities, aid instruments, and their transaction costs.

The methodology that has been adopted started with production of the Inception Report which laid out agreement on the scope of the assignment milestones; the study proceeded to undertake an in-depth review of relevant documents/literature both national and international. Thereafter interviews were undertaken with a cross section of stakeholders in Government, DPs, and selected Non- State Actors. The procedure for collecting information was mainly through interviews with individuals and roundtable discussions. Structured consultations with the Joint Secretariat and the DPs at different intervals during the Report writing-up process enabled the consultants to ascertain the correctness of the information gathered and hear reactions of the parties concerned on

preliminary assessments reflected in the drafts of the Report. The final positions maintained in this Report represent the views of the consultants, although often they rely on the information gathered and take into account views aired by different parties. As regards the anatomy of aid flows, trends data on the overall ODA allocation and execution, the information was collected mostly from MOFEA (Mainland) and MOFEA (Zanzibar), BOT, selected MDAs (Line Ministries, Departments and Agencies), DPs/Donors and NSAs.

0.3 Main findings and Recommendations

0.3.1 *Volume and Anatomy of Aid Flows*

0.3.1.1 *Completeness of Data on Aid Flows*

- **The level of ODA flows** increased from Tshs.1267 billion in 2004/05 to Tshs. 2870 billion in 2009/10. The relationship between budgeted and actual levels shows irregular outcomes i.e. actual outturn being above budget in one year followed by a drop below budgeted levels in another.
- **Aid Disbursement Captured in the Exchequer** was estimated at 90% in 2005 and it was envisaged that it would rise to 95% by 2010. Government officials suggested that with the introduction of AMP, the target indicator of 95% has been achieved. GBS is automatically on-Exchequer, while Basket and Project Funding instrumentalities have taken both the on-exchequer and non-Exchequer format.
- **The achievements made under the AMP Facility are commendable but improvement is needed.** The statistics on aid are still fragile with many sources not yet fully reconciled with each other. Yet there is need to build on the achievements of the AMP Facility to develop a system of mutually agreed data on aid flows. The practice of development partners providing annually commitment data for coming three year period and disbursement data including all kinds of support is a positive development and should be encouraged. Pressure should be exerted on the relatively low performers within the AMP information supply system.

- **Aid Captured in the budget has not increased consistently and sufficiently: improvement is needed** Some donors and development partners, old and new ones, still do not use the government budgetary system, a situation which has tended to aggravate the discrepancies between DPs disbursements and what is recorded in the government budget system. It is recommended that all DPs be encouraged to channel their assistance through the budget or at least disclose to GOT all aid flows. For improved aid effectiveness, coordination and aid management, transparency, disclosure and accountability are critically important.
- **Capturing Aid Flows to and through the CSOs has been partial, an issue that should be squarely addressed:** The aid flows to the CSOs have not been adequately captured in the statistics. This puts to question the transparency in their funding sources and whether use of these resources is consistent with the priorities in MKUKUTA and MKUZA. More transparency in their funding and uses of resources is consistent with making comprehensive efforts to achieve the national development goals. Publication annually of the Tanzania Development Corporation Report or the JAST Annual Report with the approved AMP statistics will impose a deadline on updating the relevant aid information.
- **Aid Dependency is high and a strategy to progressively reduce it should be put in place:** It has been found that external funding to Tanzania has been playing a significant role and it is slated to continue to play a significant role in supporting government expenditure with ODA averaging around 40% of the national budget and 80% of the development budget. The percentages of total expenditure and development expenditure financed by ODA show declining trends. The decline is an indication of increased internal resource mobilization as evidenced by declined share of ODA in GOT resources and increase in the GDP-to-tax ratio. A major concern here is that while internal revenue has increased, the country's tax base is still too narrow to generate domestic revenue that is consistent with a firm trend to graduate from aid dependency.

- **Allocation of resources according to MKUKUTA and MKUZA priorities needs to be improved:** Tanzania mainland has been allocating more funds to Cluster II of MKUKUTA. The low funding of Cluster I which is focusing on Growth and Reduction of Income Poverty is raising concern because Cluster I expenditures have inherently high potential to stimulate growth and reduce income poverty. Allocation of resources should continue to adhere to MKUKUTA and MKUZA priorities. The priorities themselves within MKUKUTA II and MKUZA II should be narrowed down and sequenced for annual implementation.

0.3.1.2 Composition and Relative Merit of Aid Modalities

- The share of GBs has been increasing from 30% in 2002/03 to a peak of 42.4% in 2006/07 then it started falling gradually and plateaued at around 35-37% in the last two years (2008/09 and 2009/10).
- The share of basket funding increased from 16% in 2002/03 to a peak of 21% in 2004/05 after which a gradual decline started in 2005/06, hitting the bottom in 2007/08 at 10.72% and thereafter started rising and stabilized at around 18% in the last two years (2008/09 and 2009/10).
- Project funding has persisted as the dominant modality for a while falling from 54% in 2002/03 to 41.4% in 2006/07 after which it started rising again to 54.71% in 2007/08 and seems to have stabilized at around 45% in the last two years (2008/09-2009/10).
- According to JAST, General Budget Support is Tanzania's preferred modality for delivering official development assistance to Tanzania because GBS assures the Government full ownership over public resource allocation.
- GOT and DPs agreed on front-loading GBS flows in the first two quarters. In practice, however, actual disbursements in the first two quarters have fallen below projections. In particular, disbursements in the first quarter have fallen rather far below projections. This is not in line with the spirit of the agreement.
- GBS is associated with key issues which should be identified and be subjected to open and frank discussion. GOT needs to identify the key issues in GBS and strategize to have dialogue on these issues.
- Basket funding seems to stay on its own right and has not functioned as a transition to GBS. In practice this transition has proved to be very challenging. The envisaged transition from basket funding to GBS has been inhibited by large funds from the World Bank and the global funds which not only come in large amounts of funds but

they operate outside the regular SWAPs. They have become large players operating in parallel structures like a super structure not integrated into the sector SWAP or basket fund.

- Concerns have been expressed by some DPs on the perceived capacity limitations in the sector strategies and programmes and the associated low absorptive capacity in some sectors (e.g. water and health have been given as examples). According to these voices, interruptions in disbursements from the health basket funding originate from failure to meet agreed conditions and from internal delays of funds to reach districts.
- The risk of projectization of basket funding has been cited (e.g. health sector). Two challenges emerge in this regard. First is the challenge of managing the envisaged transition from basket funding to GBS and whether these expectations need to be revised. Second, is the challenge of averting the risk of projectization of SWAPs.
- In our opinion, there has been some improvement in the last year but this needs to be consolidated to make sure that the improvement is more institutionalized and is permanent. Efforts should be made to have all funds and dialogue go through SWAP so the government can send the right signals to all donors that SWAP and GBS are the preferred modalities of managing aid relationships at sector level.
- Implementation capacity manifests itself in many forms such as late disbursement of basket funds, low absorption capacity, delay in tendering process, divergent financial management procedures among donors and delays in processing and warranting of funds and payments contributed. These need to be addressed in every sector to allow for smoother implementation of the sector programmes.
- According to JAST, the project financing aid modality was slated to decline over time in favour of basket funding and GBS. In addition, JAST has specified that direct project funds to the government are to be utilized for large scale infrastructure investment, for piloting and for emergency aid. However, in practice the prevalence of project financing has widely persisted and the type and size of projects to be amenable for project funding have not been defined.
- The team conducted a mini-survey on project financing and observed that many projects which have been financed directly through project funding have been implemented smoothly and efficiently but others have not been implemented so smoothly
- Timely contractual agreements, contractor procurements, disbursement of funds, mobilization of workforce and monitoring of the implementation on the sites are key factors that contributed to efficient and hence effective execution of these projects.
- Key actors in the respective sectors expressed opinion in favor of project financing modalities where project funds are specifically ring-fenced and channeled direct to those projects through specific accounts.

- As regards the use of General Budget Support (GBS) in financing of projects, some concerns have been raised over delays at the level of negotiations and procurement procedures as well as change of priorities when national disasters or other crisis conditions occur.
- Project financing should only be used if the project is aligned to the main MKUKUTA and MKUZA goal/objective instead of an activity based project as it is done currently. Reporting, monitoring and evaluation should be inclusive and coordinated.
- To enhance government ownership, sustainability and scaling up of development projects, project financing should be earmarked within GBS whereby specific project funding is ring-fenced. Ring-fencing specific project funds with GBS principal recipient will alleviate deviation of funding approved and disbursed for specific project implementation.

0.3.1.3 Managing Relations with Emerging Donors

Engagement of emerging donors should be recognized explicitly; they should be brought into dialogue: Engagement of emerging donors is becoming more and more important in Tanzania but their presence has not been felt in the dialogue mechanisms. Where emerging donors have local offices in Tanzania, they should be engaged at the country level annual discussion forums (e.g. DPG, GBS Review, Annual Poverty Policy Week, MKUKUTA and MKUZA working groups, etc) or associated informally as much as is possible in the DPG framework. This will help in drawing them closer to aligning with country systems and policies. JAST-II should highlight the need to build up strategic cooperation and collaboration with the emerging donors.

Vertical Funds should be understood better and better ways of managing them should be devised: The role of global funds or vertical funds is growing and is likely to be expanding in the coming years as consequences of demands of climate change and other environmental hazards. However, there is limited knowledge and analysis of the potential benefits and distortions that could be created by these funds for Tanzania. An investigation should be made on the potential benefits and distortions that they might engender with a view to developing a policy on how best to manage them.

Strategic partnership with selected non-traditional donors to be initiated: The traditional ties between Tanzania and both China and India inspire optimism that good trading and investments relations will continue to develop. This opportunity should be used to consolidate Tanzania as a top beneficiary of aid from these two countries, aid that is cost effective and supports transfer of appropriate technology in specific sectors. Government should regard cooperation (and dialogue) with these donors as essential in the upcoming MKUKUTA II. Strategizing the progress of relations with these two large countries, as typological examples, ironically motivates the need to work more systematically at reducing Tanzania's aid dependency and thus wrestle with the question of why Tanzania is still approaching inordinately too many emerging nations for official development aid¹.

Incorporate strategic cooperation with emerging donors in the next JAST: It makes sense now to propose that in the next version of the JAST, there is need to develop a separate theme for carrying out strategic cooperation with emerging market economies (or new donors) by identifying the link between aid and investments, aid and trade, technology and knowledge transfers, and aid with strategic geopolitical considerations that Tanzania needs to give priority to in enhancing the effectiveness of foreign assistance. Such approach will require a more comprehensive approach in planning of aid management in MOFEA, with diversified staffing and working tools, as well as close cooperation among MDAs and NSAs in Tanzania that are involved in promoting foreign relations, industry, trade, FDIs and non-official foreign borrowing. Such a strategic approach will be equally advisable to apply to relations with OECD /DAC countries in the long run.

0.3.1.4 Technical Assistance

A National Technical Assistance Policy has been developed by the Government and a dialogue is in progress between the DPs and the Government on details of that policy. It appears that certain issues are so far yet to be clarified between the two parties and that further dialogue and discussion is therefore needed. A clear

¹ This does not apply to trade or FDIs which should be promoted with widest possible diversification

position is necessary on the part of the Government on where to go with TA, what to include and what to leave aside, and how to proceed operationally. In particular the policy needs to come out more clearly on how to make sure TA is demand driven, how improve the utilization of National Technical Assistance and how to best use to develop capacity in the country while observing the promotion of ownership and alignment in line with JAST. Priority should be given to implementation of a pay reform with the aim of making it attractive for skilled and qualified Tanzanians to work in the public sector and retain the skilled personnel in the public service. In addition unnecessary demand for expertise should be avoided by reducing the number of separately managed projects and putting in place a mechanism for recruiting TAs and developing effective Tor for them to be utilized to deliver well defined results.

0.3.2 Progress in Aid Effectiveness

0.3.2.1 Strengthening Ownership and Leadership in Development

While the government has made progress in ownership and leadership there are signs of slippage in ownership, apparently undermined by both sides. On the side of government articulation of the development agenda and policy dialogue has waned and on the donor side DPs have often fallen into the temptation of feeling obliged to fill what they see as a vacuum, a situation which amounts to playing a role which the government is supposed to play. Without high level of national ownership and government leadership there cannot be meaningful harmonization, alignment, mutual accountability and managing for results and hence there will be no sustainable results with regard to Tanzanian development. Government leadership is essential in improving the quality of dialogue among others. Strong Government leadership is also needed to engage emerging donors and to progressively bring their development cooperation into alignment with the principles of the JAST and the Paris Declaration.

Development cooperation has to be sufficiently discussed in terms of the big picture of the development framework and progress made in meeting the development agenda. The government should show greater clarity in its development agenda from which it will derive what it wants to achieve in terms of development results. These should in turn form the basis of PAF targets. Greater effort should be put into getting the

implementation reports in the agreed time and with greater clarity. Reporting system for MKUKUTA whereby one report is prepared for all constituencies has been commended as a move in the right direction and should be consolidated.

One problem which has been raised by government side is the preponderance of bilateral agreements which seem to take precedence over PAF. On this point government should stick to the harmonization to the Paris Declaration and JAST principles when they negotiate and sign bilateral agreements and development partners should strive not to depart from the national development framework as a reference for setting targets and conditionalities. The key reference points should continue to be JAST and Paris Declaration with new insights from Accra HLF in 2008.

GOT needs to improve the way it is organizing itself for policy dialogue in terms of quality of preparation. It has been observed that dialogue between GOT and IMF has been going well in recent years due to the high quality of input by GOT resulting from excellent preparations. The same should be emulated for preparations for the national development agenda and sector policies. Clarity in these areas has important implications on JAST, PAF and DPs dialogue with GOT. Close collaboration between MOFEA and the Planning Commission is recommended. The lead in this regard may be taken by Planning Commission and MOFEA supported by a team of senior officials assisted by experts so that the quality of preparations and the profile of policy dialogue can be raised to new heights.

0.3.2.2 Alignment

Performance in terms of alignment has been modest and challenges have emerged. Of the five principles of the Paris Agenda the conclusion was drawn at the Accra follow up meeting that the agenda on alignment was the most difficult to adhere to. Also the simplest steps such as aligning to the budget system in the host country have been difficult to live up to. The experience of Tanzania is similar to the observations in Accra. Alignment should be given priority to make sure that DPs operations promote and develop rather than undermine country systems.

Ownership and alignment seem to have stagnated or even eroded. One of the factors which have dampened development of ownership is capacity. The capacities of government especially within the Ministry of Finance and Economic Affairs are

regarded as an essential ingredient in increasing country ownership. Deliberate effort should be made to enhance the capacity of the respective departments of MOFEA. Capacities of CSOs have also been considered in this report, since they enable them to play their full role of advocacy and monitoring.

The government and DPs should formulate a clear strategy of making DPs increasingly use country systems where these are of sufficient quality and to work jointly (GOT and DPS) to strengthen them where they are perceived not to be of sufficient quality.

0.3.2.3 Harmonization

Harmonization in Tanzania is one of the areas where the best achievements have been reached in relation to both the Paris Agenda and the JAST. Indicators 9 and 10 assessed various elements of harmonization. Indicator 9 of the Paris Declaration took the proportion of aid delivered through programme-based approaches (PBAs) as a proxy for use of common arrangements. It was found that increasing use has been made of PBAs in Tanzania in particular through GBS and basket funding modalities, which has allowed for greater alignment of donor support to national priorities and systems and increased harmonization of donor procedures.

The proportion of aid using PBAs and thus common procedures rose from 55 percent in 2005 to 61 percent in 2007- slightly below the 2010 target of 66 percent. The major challenges include capacity constraints of government agencies and financial management systems as well as donors' domestic legislative constraints that limit the extent to which they can engage in PBAs.

Indicator 10 assessed progress made in conducting joint missions and sharing analysis. The indicator counted the proportion of missions to Tanzania that were undertaken jointly by more than one donor, and the share of country-analysis exercises that were undertaken on a joint or coordinated basis. In 2006 only 17% of donor missions were conducted jointly. The 2008 survey shows some progress on Indicator 10a with 24% donor missions conducted jointly in Tanzania in 2007, but is still far below the 2010 target of 40%. Increased use of budget support, basket funds and sector-wide approaches has provided further opportunities for joint reviews and missions.

Tanzania has substantially improved on the extent to which pieces of analytic work are coordinated, increasing from 38% in 2006 to 86% in 2007, exceeding the 2010 target of 66%.

0.3.2.4 Managing for Results

In 2006, the government approved the NSGRP Monitoring System (RIMKU), which aimed to provide a transparent performance assessment framework for the NSGRP. Explicit performance reporting requirements have been developed and were incorporated into the 2007/08 Plan and Budget Guidelines. Progress has been made in the use of common reviews frameworks such as the Performance Assistance Framework (PAF), which draws indicators from the MKUKUTA, PER and other national processes. The assessment of the 2009 PAF matrix reveals overall performance has been mixed and core reforms remain a challenge. Stronger qualitative dialogue at sector level is required to speed up the pace of implementation of agreed reforms, to increase PAF implementation and to reduce the incidence of split decisions. Efforts should be made to minimize areas of disagreement when it comes to the assessment of progress through ensuring simple and clear indicators of what is to be attained and regular high level dialogue on achievements and challenges ahead.

However, there are concerns over the increasing the number of new processes linked to the monitoring of the programmes, which are not sufficiently harmonised between themselves nor aligned in the budget and financial management systems, problems with interpretation of the quality of some monitoring indicators, and the large number of indicators.

0.3.2.4 Mutual Accountability

Accountability requirements are often applied more comprehensively on the government than on DPs. Aid is more effective when the government exercises strong and effective leadership over the development policies and strategies while the donors fulfill their obligations without undue hesitations and new demands. Mutual accountability needs to be articulated for both partners for purposes of achieving development results.

0.3.2.5 Lessons from Sector Studies

The selected sector studies have brought into the picture several lessons:

First, it has been demonstrated that the national level progress in government and DP coordination and other ideals enshrined in the JAST are not uniformly rolled down to sector levels and the rates of achievement vary by sector. The composition of aid modalities varies by sector with greater levels of project aid more likely to be preferred in infrastructure where large projects are dominant while GBS is more likely in governance reforms where projects are less tangible. A related lesson is that the modality of project funding is likely to remain suitable for funding certain sectors (e.g. transport investments) than others (e.g. health or governance) that can more readily be adapted to GBS and basket funding.

Second, the notion that SWAPs are to be an intermediate stage in transition to GBS has proved to be very challenging. The envisaged transition from SWAPs to GBS has been inhibited by large funds such as from the World bank and the global funds which not only come in large amounts but they operate outside the regular SWAPs. They have become large players operating in parallel structures like a super structure not integrated into the sector SWAP or basket fund. It is proposed that efforts should be made to make all funds and dialogue go through SWAP so the government can send the right signals to all donors that SWAP and GBS are the preferred modalities of managing aid relationships at sector level.

Third, the relationships between Government and DPs can move from the currently poor state to an improved state through persistent dialogue as the education sector has demonstrated. This case has shown that steps taken to build capacity for providing effective leadership in policy dialogue and stepping up capacity building in policy discussions and enhancing clarity of the long term strategy have paid off.

Fourth, implementation capacity is manifested in many forms such as late disbursement of basket funds, low absorption capacity, delay in tendering process, different financial management procedures among donors and delays in processing and warranting of funds and payments contributed. These need to be addressed in every sector to allow for smoother implementation of the sector programmes.

Fifth, decentralization and the related process of devolution has to be guided by sufficient communication between the Ministries and PMO-RALG. Phasing of the reforms and mobilizing participation of communities, private sector and NGOs is essential for effective reform.

Sixth, the manner in which governance and in particular political governance concerns have been practised in Tanzania has introduced an element of uncertainty resulting in reduced predictability of resource flows. There is need to improve the manner in which governance concerns are expressed in the GOT-DP dialogue. There has been concern that the assessment of the cluster on governance and accountability has been constrained by data limitations for several indicators and the appropriateness of many of the indicators used has been questioned. The need to improve indicators for measuring performance in the area of governance is being acknowledged. Sometimes both parties have been tempted to agree on performance criteria which do not take full account of the time it takes to change traditions and cultures and to build institutions of governance and democracy. In this regard, it is proposed that dialogue on governance should be characterized by deeper dialogue in which agreement should be reached on indicators to which incentives may be tied.

0.3.2.6 Restoring Dialogue and Rebuilding Trust

- While trust between the JAST partners were at a peak at the time of the last IMG consultation we have found that this is less so today. It seems that expectations have been divergent in terms of performance and perceived speed at which certain targets could be achieved. The question of trust needs to be revisited with a view to taking a longer term perspective than the case has been in recent years. The bottom-line is to create a good and all inclusive partnership;
- It was found that some key structures of the policy dialogue have not been functioning as they should. The PER Main and clusters has not been functioning effectively. Yet these are very important components of the dialogue structure.
- There is need to restore the dialogue at least to the level that can be associated with trust, openness and frank discussions. The way out is not for the GOT to decline to engage but to engage actively and tactfully. In fact, it will help greatly if more

senior officials are engaged more regularly in the dialogue and the quality of preparations for dialogue is improved. This requires that GOT goes with a plan of how best to engage, raises the profile of the policy dialogue and enhance the quality of preparations. The Government representatives should exercise more explicit leadership in all meetings between the government and DPs. One implication of this is that the Government representatives should be of the right competence, authority and decision-making level.

- Voices from the GOT have expressed concern that the quality of staff and institutional memory on the DP side need to be improved so the good experiences of the past are not forgotten. In our opinion, a renewed dialogue based on a higher level of trust is a more lasting solution. In this regard, DPs should engage more in bringing to bear good practices from elsewhere to enrich the policy dialogue.
- DPs and GOT should agree on boundaries of dialogue respecting the right of government to have state secrets which cannot be subjected to dialogue with DPs like any government does. The government should come out clearly on the boundaries of issues to be subjected to dialogue distinct from those which are not to be subject to discussion in the dialogue. In this regard, transparency and trust are of essence.
- There is need to find ways to improve discussions at cluster meetings. Contrary to some respondents' views, the current IMG team believes the cluster framework is still an important category of the dialogue process particularly suitable for harmonising issues that cut across sector-specific concerns. However, improvements need to be made so that they become more constructive and substantive, as is the case with sector and thematic dialogue meetings. The sector and cluster forums will be more efficient if they operate under a MKUKUTA that hinges on a development and poverty reduction agenda that articulates clear strategies for resources management and policy direction. In this context, a clear articulation of the role of the Planning Commission vis-à-vis MOFEA will be helpful.

- The difficulties that have been experienced in the dialogue have made both parties feel like appealing to higher levels. The DPs have been reported to be appealing to the level of Permanent Secretaries and Ministers and the GOT officials have been wishing to appeal to DP capitals. All these efforts are symptomatic of the failure of dialogue and the resulting frustration. They should be addressed by reviving and improving dialogue along the following four lines:
 - ✓ Consistent with the evolving global concern over development results, the dialogue should formally shift from process to performance based on results and outcomes. Linking non-performance to the release of funds can work where criteria for performance are worked out in terms of development results based on specific criteria.
 - ✓ In order to get a better feel of the sensitivities in the DP capitals and their constituencies GoT should engage more effectively the Tanzania Embassies abroad in sending feelers and engaging in dialogue with the DP capitals in the same way that ambassadors of DPs in Tanzania take up issues with the GOT. Such a move would capitalize on the new foreign policy economic diplomacy.
 - ✓ Politicians notably Members of Parliament and Ministers should be engaged more effectively in the dialogue. In particular the Minister of Finance should feature more prominently in the dialogue structure. In fact, an option which should be considered seriously is that of having the Minister of Finance chair the DCF instead of the Chief Secretary. This would enable the DCF to address difficult and sensitive issues in the relationship including those which are political in nature. Parliament needs to be more closely involved and in a more systematic manner in the dialogue on aid relationships with a view to enhancing oversight. The relevant parliamentary Committee should be engaged more actively in this regard.

- ✓ The ultimate solution is for the GOT and DPs to enter into a more frank dialogue based on trust and discuss the problems more openly and agree on how best to do business together.

- In the dialogue between GOT and DPs, PFM has become a nagging issue which deserves special attention to facilitate resumption of dialogue. The GOT believes the PFM is functioning well while the DPs believe that it is not functioning well. This is a subject which has now been better resolved by an independent study whose results have formed the basis of working out an action plan which is currently being implemented by both GOT and DPs. One lesson to be drawn from this experience is that where differences arise they can be resolved through honest dialogue facilitated by an independent and objective study.

- There is need to renew the trust which is currently at a very low ebb. Both sides need to act and both sides should show interest in going back to the negotiation table and show interest in getting things back on track and on the right footing. .

Recommendations for Zanzibar

- **Data availability** should be improved:
 - The new AMP system should continue to be consolidated so that ODA data capture can be improved over time by liaising more effectively with development partners and the sectors/ministries in Zanzibar.
 - The MTEF process should be consolidated with a view to improving projections of data on aid resource flows.
- **Dialogue:** There is need to involve Zanzibar more effectively in URT aid related dialogue and to strengthen the Zanzibar based dialogue.
 - RGoZ and development partners should organize for ensuring regular and structured communications. In particular, 'Core Group' meeting with a subset of donors active in Zanzibar should be revived and make sure the meetings are held regularly.
 - The Core Group should be widened to include new donors depending on their evolving importance.
 - More effective participation in the URT dialogue structures should be cultivated so that the Zanzibar specific issues can be addressed within the framework of JAST which is a common guiding document to all parts of the Union. It is recommended that weaknesses in the current participation of Zanzibar in the URT dialogue structures should be addressed with a view to realizing a better link between URT and Zanzibar.. For instance, the problem of short notice for meetings should be addressed and it should be possible to make greater use of ICT in communications and information sharing.
- **Basket funding** operating in URT should be made to cater for Zanzibar more effectively and an appropriate mechanism should be established for Zanzibar.
 - It is recommended that the participation of Zanzibar in SWAPs in URT dialogue structure should be strengthened and be made to accommodate more effectively the Zanzibar specificities. Participation of Zanzibar in SWAP discussions would ensure that Zanzibar makes its contribution to the shaping of the URT approach to basket funding consistent with provisions in JAST.

- In the meantime a start should be made of establishing SWAps in Zanzibar on the basis of which Zanzibar specific baskets would be initiated. In our opinion, the proposal made in the Aid Coordination draft of March 2010 that Zanzibar specific baskets should be established around broader categories of activities possibly coinciding with the three clusters of MKUZA is reasonable and deserves support. Creating baskets in Zanzibar along the lines of broad SWAps would be a good starting point on the basis of whose experience improvements over time would be made.
- **MKUZA priorities** should be reflected more clearly in aid resource allocation
 - It is recommended that arrangements be made to make a shift towards the growth and poverty reduction cluster by correcting the balance of aid modalities towards GBS and basket funds which would have greater flexibility in allocating resources according to MKUZA priorities and by narrowing down MKUZA priorities.
 - MKUZA II should be disaggregated to more narrowly defined priorities and make sure that resource allocation is made according to those priorities. More effective participation of Zanzibar in the URT dialogue structure should also facilitate GBS allocation to have a closer bearing to Zanzibar's resource requirements for implementing MKUZA.
- **Division of labour** should be worked out in line with the guidelines contained in JAST taking into account the reality of small number of donors in Zanzibar and the small number of sectors in which donors are active.

1.0 INTRODUCTION AND BACKGROUND

1.1 Background to the Report

1.1.1 *The Tanzanian Context*

As we review the aid relationships between GOT and development partners, it is necessary to recall the principles or objectives of the Tanzania Joint Assistance Strategy (JAST - 2006), whose core message is reiterated in the Paris Declaration and are in essence what is being assessed in this report. The JAST objectives are laid down as follows:

The overall objective of the JAST is to contribute to sustainable development and poverty reduction in line with the National Vision 2025 and the Zanzibar Vision 2020 by consolidating and coordinating Government efforts and Development Partners' support under a single Government-led framework to achieve results on the National Strategy for Growth and Reduction of Poverty (NSGRP/MKUKUTA) and the Zanzibar Strategy for Growth and Reduction of Poverty (ZSGRP/MKUZA) as well as other national development and poverty reduction programmes.

The intermediate objective of the JAST is to build an effective development partnership in line with national and international commitments to aid effectiveness by:

- (i) Strengthening national ownership and Government leadership of the development process,
- (ii) Aligning Development Partner support to Government priorities, systems, structures and procedures,
- (iii) Harmonizing Government and Development Partner processes,
- (iv) Managing resources for achieving development results,

(v) Ensuring mutual accountability of the Government and Development Partners, and

(vi) Strengthening accountability of the Government to the citizens of Tanzania.

When aid relationships between GOT and DPG deteriorated in the early 1990s the two parties agreed to engage an independent team of experts led by Prof. Gerry Helleiner to study the situation and provide recommendations on the way forward. In 1997 the Government of Tanzania (GOT) and the development partners (DPs) agreed to adopt the recommendations of the Helleiner Report and agreed to put in place a mechanism for monitoring progress on the agreed points. These points were elaborated to form the basis of the Tanzania Assistance Strategy (TAS) which provided the framework for strengthening donor coordination, harmonization, partnerships and national ownership in the development process.

Since 2000 the task of undertaking independent reviews was entrusted to what is 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 one was presented in 2005 and provided a useful input into the preparation of JAST. The current report will be the third in the series of IMG reports.

While the ODA process has become more and more complex over the years, in which recipient countries like Tanzania have had to set up aid management systems that come under strict monitoring and assessment by both domestic and external stakeholders, Tanzania has been regarded as a trendsetter and often tried out processes and programs far before other partner countries,

As regards the implementation of the principles of the Paris Declaration and the dialogue between the partners, Tanzania is still well ahead of most other countries in Africa. Expectations have however been extremely high and too little patience on both sides of seeing the results of this process as quickly as possible. The principles of

ownership, alignment and harmonization require a long time to develop and so is the process of creating veritable partnership for development. In addition achievements in these areas require humility, patience, and trust, all of which must be viewed again with a long term perspective.

The bottom-line is to create a good and an all inclusive partnership. Partnership has both a qualitative and a methodological aspect to it. The qualitative aspect contains: Change of attitude based on the partners really respecting each other; both parties being explicit about values and transparency in interest; clear contractual standards and; equality in capacity.

All qualities of partnerships respected, aid resources in Tanzania have to support a country-specific over-arching national planning framework. In Tanzania this takes the form of MKUKUTA and MKUZA. In this regard, the Government of Tanzania has made progress in fostering close relations with its development partners, inter alia through implementing the Tanzania Assistance Strategy (TAS) FY 2002/03-2004/05 and the Joint Assistance Strategy for Tanzania (JAST) for FY2006/7-FY2009/10. JAST is a medium-term framework for managing development cooperation between the Government and Development Partners to achieve national development and poverty reduction goals.

With the MKUKUTA and KUZA due to expire on 30th June, 2010, the Government has launched its Review to assess achievements to date and identify challenges feeding into the next economic growth and poverty reduction strategies (MKUKUTA II and MKUZA II).

1.1.2 Trends in international development cooperation²

As we assess the effectiveness of development cooperation and partnership in Tanzania since 2005/2006, it is important to contextualize this assessment in the changing trends in international development cooperation. In this context, the following trends in the realm of development cooperation should be highlighted:

² Summarized from Bertil Oden and Lennart Wohlgemuth, 2009. Where is Swedish Aid Heading? Stockholm

Expansion of the Traditional Objective of Development Cooperation: Traditionally the official overarching objective of development cooperation has been to reduce poverty in the world and improve the situation for poor people. The definition of poverty has however increasingly assumed a broader meaning and taking a broader range of policy objectives. The concept of poverty has widened to include all dimensions of poverty, such as lack of power and influence, limited access to public services, limited freedom of choice and weak empowerment regarding human rights and democracy.

The plethora of activities emerging out of the expanding motives for development cooperation contributes to the present situation in which almost every activity can be included as development cooperation. The result is a fragmented and opaque global aid industry that is difficult to monitor and evaluate.

The expansion of the aid definition has led to the increased number of institutions dealing with aid and international cooperation. . The most important changes of the development cooperation landscape are the result of three categories of new or reappearing players. The first category consists of an increasing number of emerging economies such as China, India, South Korea, Saudi Arabia and Brazil, and regional funds. The second category is a number of so called vertical funds and special programs. Finally there are special international or national funds for specific purposes, among them a number of programs and funds launched in the wake of the global financial crisis of 2007-2008 in order to mitigate its effects on poor countries.

1.2 The Current Assignment

Based on the TOR issued by the Ministry of Finance and Economic Affairs (MOFEA) and adopted by the IMG process, and the subsequent proposed methodology on “Assessment of Effectiveness of Development Cooperation/External resources and Partnership Principles in the context of MKUKUTA and MKUZA review, an agreement was reached in November 2009 for the implementation of such an Assessment by the Independent Monitoring Group (IMG). Following the agreement an Inception report was presented and adopted in January 2010. This report is based on data and

documents provided by GOT and DP officials, the consultations made by the IMG Team with many aid stakeholders whose names are indicated in the Appendices as well as agreement reached during discussions of the Inception the Draft Reports .

1.2.1 Objectives of the Assignment

The key objective of the assessment is to determine how external finance/ODA supported the implementation of the ongoing MKUKUTA and MKUZA and how it can most appropriately continue doing so under MKUKUTA II and MKUZA II. Given that the MKUKUTA and MKUZA is the framework to guide the resource allocations and sector strategies, the extent to which GoT and DPs have supported the partnership principles will also shed light on the effectiveness of GoT and DP support of MKUKUTA and MKUZA.

In this context, the assessment has addressed the following two key sets of questions:

- (i) The first set of questions concerns the size and anatomy of aid flows, including the evolution of aid and its impact over the 2005/6-2008/9 period.
- (ii) The second set of questions relates to aid effectiveness including the performance of aid modalities, aid instruments, and mix of instruments as well as effectiveness of impact on transaction costs.

Specific objectives of the assignment elaborate on the two sets of questions as follows:

- (a) Assessment of overall ODA allocations since 2005 and its alignment to MKUKUTA and MKUZA priorities, as well as elaboration of forward-looking external financial perspectives in terms of ODA volumes, modalities and priority sectoral ODA allocations.
- (b) Carrying out a Survey of Off-Budget financing, involving an analysis of off-budget aid provision and utilization since 2005.
- (c) Carrying out a Survey of “non-DPG external financing flows” since 2005.
- (d) Effectiveness of GBS (including its predictability) and of Basket Funds, as well as project funding in terms of their contribution to the budget process and were

effective in contributing to the MKUKUTA and MKUZA priorities, MTEFs and related quality of macro-economic and sector dialogue.

- (e) Progress in the implementation of the JAST principles/aid effectiveness agenda.
- (f) Filling gaps in the currently available draft TA policy and making recommendations that can inform the operational guidelines of the national TA policy.
- (g) Assessment of the dialogue between GoT, DPs and non-state actors (NSAs) in the implementation of MKUKUTA and MKUZA.
- (h) Assessment of adequacy of institutional arrangements at both the GoT and DP level for coordinating GoT-DP interaction which derives from the growing need for co-ordination mechanisms.

2.0 APPROACH AND METHODOLOGY

2.1 Definition of Aid Effectiveness

The Aid Effectiveness definition is as contained in the JAST, thus covering the key components of aid effectiveness principles under the Paris Declarations and points toward development outcomes as well as efficiency. In as far as the IMG work tries to link aid effectiveness with development effectiveness these definitions are also relevant for this Assessment.

2.2 Methodology

The adopted methodology consisted of five stages. This approach ensured that the assessment team addressed the assignment objectives, the main tasks and activities logically and enabled the study team to feed outputs of one stage into the others.

Stage I was covered under the inception report, which basically focused on agreement of scope of the assignment milestones. Stage II was an in-depth review of relevant documents/literature both national and international. Stage III was an in-depth analysis of aid flows followed by stage IV, which involved in-depth consultations with key stakeholders in government, various types of donors and Non- State Actors. Stage V involved analytical work and report writing.

For the analysis of aid effectiveness, two sources of data were used; secondary data and collecting primary information and secondary information. **Secondary data** was collected through extensive review of existing documents. **Primary data** was collected through interviews with a cross section of key stakeholders including the government, DPs, Non-DPG donors, CSOs and other relevant institutions. The procedures for collecting this information were mainly through interviews with individuals and discussions with client groups **As regards the anatomy of aid flows**, trends data on the overall ODA allocation and execution was collected mostly from MOFEA (Mainland) and MOFEA (Zanzibar), BOT, MDAs (Line Ministries, Departments and

Agencies), DPs/Donors and OECD.. The list of persons interviewed appears in Appendix C.

The IMG managed to meet top officials in MOFEA, The JAS Secretariat and The DPG Secretariat. The team also visited the Ministry of Finance and Economic Affairs in Zanzibar (MoFEA). Structured consultations with the Joint Secretariat and the DPs at different intervals during the Report writing-up process enabled the consultants to ascertain the correctness of the information gathered and hear reactions of the parties concerned on preliminary assessments reflected in the drafts of the Report.

On a selective basis the IMG team made visits to some of the beneficiaries to assess the use of ODA support. The team also visited a few ODA funders (DPs/Donors) who are providing support through GBS, specific sector baskets, special sector theme baskets, direct programme and project financing (on budget and off-budget). The team made further in-depth study of four sectors: health, education, transportation and governance.

The report benefited from comments and suggestions from JASDT Secretariat, DPs, Government officials twice in the course of the study. The report also benefited from comments and suggestions made at the meeting with Permanent Secretaries on 18th September 2010. The final positions maintained in this Report represent the views of the consultants, although often they rely on the information gathered and take into account views aired by different parties

3.0 MAIN FINDINGS OF THE STUDY

3.1 Anatomy of Aid Flows

Development aid in general term includes both monetary and in kind aid. Hence aid flow can mean (i) government to government, (ii) non-government to government, and (iii) government to non-government. Aid usually should includes all aid (monetary and non monetary) coming to Tanzania through public institutional frameworks with no regard to whether the resources are derived from public, private or NGO sources (and whether from traditional and new donors). It includes all aid support to the Tanzania government institutions, to mean both local and central government. It should also include support to Tanzania coming in-kind such as Technical Assistance (TA) or food aid. In this context, all funds earmarked for public use going through and outside the Exchequer system should be captured and accounted for.

3.1.1 Assessment of overall ODA allocations

Due to time constraints and data availability in the context of this assignment, the detailed analysis of aid flow focused more on government to government aid coming to Tanzania through public institutional frameworks. It includes all aid to both central and local government. Consequently, the study has excluded the in-kind aid, non-government to government aid, and government to non government aid.

(i) Trend in ODA flows: Budgeted and Actual

As shown in Table 1, actual ODA flows increased from Ths.1267 billion in 2004/05 to Tshs. 2870 billion in 2009/10. The relationship between budgeted and actual levels shows alternating outcome i.e. actual being above budget in one year is followed by actual falling below budgeted levels. This pattern is rather consistent suggesting the possibility of time lags in actual disbursement of funds. Deviations of actual from budgeted ODA flows are quite modest not exceeding 10% in most cases.

Table 1 COMPARISON OF BUDGET ESTIMATES VS ACTUAL AND EXCHEQUIER IN BILLIONS TSHS

Funding Modalities	2004/05 Budget	2004/05 Actual	Deviation	2005/06 Budget	2005/06 Actual	Deviation	2006/07 Budget	2006/07 Actual	Deviation	2007/08 Budget	2007/08 Actual	Deviation	2008/09 Budget	2008/09 Actual	Deviation	2009/10 Budget	2009/10 Actual	
General Budget Support	434	428	1%	616	592	2%	805	790	1%	881	963	-3%	812	941	-6%	1,194	1,215	-1%
Basket Fund	267	350	-7%	333	300	2%	304	175	7%	273	364	-4%	419	397	1%	573	402	5%
Project Funds	566	613	-4%	677	479	12%	789	997	-11%	1,395	981	16%	1,061	1,003	3%	1,415	1,254	5%
Total	1,267	1,390	-10%	1,625	1,371	16%	1,898	1,962	-3%	2,549	2,309	9%	2,292	2,341	-2%	3,182	2,870	10%

Table 1 also presents data on aid modalities, a subject for discussion in the next section (section 3.1.2) of this report.

All studies have shown that external funding to Tanzania has been playing and will for the foreseeable future continue to play a significant role in supporting government expenditure, particularly in funding national poverty reduction efforts and implementation plans. On average ODA flows have accounted for around 40% of the national budget and 80% of the development budget during the period 1994/95-2009/2010. This contribution was only based on funding that was recorded in the exchequer system.

(ii) External Resources and Projections

In the draft MKUKUTA II foreign support for budget is expected to continue in the medium term with grants expected to be around 4.7 percent of GDP in 2010/11 and slightly drop to 3.7 percent by 2014/15. On the other hand, foreign loans are projected at 2.8 percent of GDP in 2010/11 and around 3.4 percent of GDP in 2014/15. Considerations for reducing aid dependence have been made in respect to the options of borrowing on non concessional terms and domestic borrowing of around 2 percent of GDP is projected in the medium term. The projected trend is consistent with Government intention to scale up investment in basic infrastructure development.

Table 2 shows indications of the likely outturn of aid flows in the next 3 years projections of aid flows. The data provided is still tentative as some donors have not yet given indications of the amounts they are likely to give. According to MOFEA, these indications will be revised during the time of preparing the next MTEF.

Table 2: External resources Projections to 2012/13

EXTERNAL RESOURCES FOR BUDGET GUIDELINE FY 2010/11-2012/13							
		Tshs					
		2010/11		2011/12		2012/13	
GBS	GRANT	631,808,098,675		548,998,744,326		529,194,525,162	
	LOANS	189,837,277,000		316,907,272,448		256,957,773,526	
	Total	821,645,375,675	25%	865,906,016,775	40%	786,152,298,688	42%
	GRANT- Total	821,645,375,675		865,906,016,775		786,152,298,688	
Basket	GRANT	221,569,470,797		139,067,205,290		124,327,605,290	
	LOANS	256,218,575,228		79,265,000,000		79,265,000,000	
	Total	477,788,046,025	15%	218,332,205,290	10%	203,592,605,290	11%
PROJECT	GRANT	898,779,666,640		643,275,334,232		542,060,491,690	
	LOANS	807,590,241,360		298,345,464,095		233,573,674,902	
	MCC	268,750,092,000		125,768,795,157		125,768,795,157	
	Total	1,975,120,000,000		1,067,389,593,484		901,402,961,749	
	GRANT TOTAL	3,274,553,421,700	100%	2,151,627,815,549	100%	1,891,147,865,727	100%

Pending revision of aid flow indications at the time of preparing the next MTEF, It is difficult to predict what the actual volume of aid flows will turn out to be. However, the level of aid flows is likely to be influenced by the perceived performance by both GOT and the donors and the extent to which dialogue based on trust will be resumed. Currently it seems clear that the optimism that DPs had in 2005 has waned largely because of results from the HBS showing that poverty has not declined, slow implementation of policy reforms as perceived by some DPs, EPA scandal and the deterioration in performance in terms of the cost of doing business as indicated by the falling back in the ranking of Tanzania in the list of reporting countries.

It is recommended that:

- *Projections be improved by urging DPs to provide their projections of expected aid flows in good time within the framework of MTEF. DPs should be more responsive in this regard.*
- *To the extent then the level of aid flows is likely to be influenced by the perceived performance by both GOT and the donors and the extent to which dialogue based on trust will be resumed, it is recommended that the dialogue be resumed and strengthened in terms of frank and open discussions based on agreed criteria of performance.*

3.1.2 Aid Modalities: Composition, Trends and Effectiveness

(i) Composition and Trends

As shown on Table 3, the share of GBs has been increasing from 30% in 2002/03 to a peak of 42.4% in 2006/07 then it started falling gradually and plateaued at around 35-37% in the last two years (2008/09 and 2009/10). The Government of Tanzania expects the share of GBS in official development assistance to rise further, as we are moving forward together in the implementation of the Joint Assistance Strategy for Tanzania (JAST). It is therefore hoped that in future, GBS Partners will continue increasing the share of GBS in their total ODA and that other Development Partners will start joining them in providing their assistance through this modality.

The share of basket funding increased from 16% in 2002/03 to a peak of 21% in 2004/05 after which a gradual decline started in 2005/06, hitting the bottom in 2007/08 at 10.72% and thereafter started rising and stabilized at around 18% in the last two years (2008/09 and 2009/10).

Project funding has persisted as the dominant modality for a while falling from 54% in 2002/03 to 41.4% in 2006/07 after which it started rising again to 54.71% in 2007/08 and seems to have stabilized at around 45% in the last two years (2008/09-2009/10).

Table 3: Composition of Aid Funding Modalities in Tanzania Mainland as per Budget Estimates

TYPE	FY 2002/03	FY 2003/04	FY 2004/05	FY 2005/06	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10
GBS	30%	38%	34%	38%	42.4%	34.57%	35.4%	37.5%
Basket	16%	18%	21%	20%	16.2%	10.72%	18.2%	18.0%
Projects	54%	44%	45%	42%	41.4%	54.71%	46.4%	44.5%

Source: Data from 2002/03 to 2006/07 is from the United Republic of Tanzania: Strengthening Aid Effectiveness in Tanzania, MoFEA 2008 while data for 2007/08 is based on the AMP data base from MOFEA, 2010.

(ii) **Relative Effectiveness of Aid Modalities**

GBS

According to JAST, General Budget Support is Tanzania’s preferred modality for delivering of official development assistance to Tanzania. This is because GBS gives the Government full ownership over public resource allocation in line with national priorities for the implementation of the MKUKUTA. Furthermore, GBS facilitates Government finances to be deposited in the Consolidated Fund and be appropriated by the Parliament. In addition, GBS is fully integrated in the national budget and accountability system. It is subjected to the same degree of scrutiny in the national budget process as domestic resources and enables the Parliament to fully hold the Government to account for the proper use of development assistance. GBS also helps to reduce transaction costs and facilitates harmonization among Development Partners. GOT and DPs agreed on front-loading GBS flows in the first two quarters. In practice, however, actual disbursements in the first two quarters have fallen below projections as shown in Table 4. In particular, disbursements in the first quarter have fallen rather far below projections. This is not in line with the spirit of the agreement. This is a challenge which needs to be addressed in the dialogue.

Table 4: Comparison of % of Budget Support Front-Loaded FY 2002/03 - 2005/06

Quarter	FY 2002/03 Projecte d	FY 2002/03 Actual	FY 2003/04 Projecte d	FY 2003/04 Actual	FY 2004/05 Projecte d	FY 2004/05 Actual	FY 2005/06 Projecte d	FY 2005/06 Actual
Quarter 1	52%	8%	72%	50%	72%	78%	92%	30%
Quarter 2	33%	54%	16%	30%	18%	18%	7%	67%
Quarter 3	15%	14%	11%	9%	10%	4%	1%	1%
Quarter 4	1%	25%	0%	11%	0%	0%	0%	2%

Source: Government Budget Books, Aid Flows Database, Ministry of Finance.

Quarter	FY 2006/07 Projecte d	FY 2006/07 Actual	FY 2007/08 Projecte d	FY 2007/08 Actual	2008/09 Projecte d	2009/10 Actual	2009/10 Projecte d	2009/10 Actual
Quarter 1	64.4%	63%	95%	50%	38%	28%	75%	64%
Quarter 2	17.3%	20%	5%	42%	62%	44%	7%	2%
Quarter 3	18.3%	2%	0%	0%	0%	22%	3%	16%
Quarter 4	0.0%	15%	0%	8%	0%	7%	14%	18%

The operation of GBS in practice is raising new questions regarding resources predictability and the risk of invoking issues of political governance in rather unpredictable ways. GOT feels that a major challenge on the DP side is the different criteria used in finally releasing funds and in particular the variable tranches after a joint decision has been taken in the annual review process. Some DPs have expressed concern that the Tanzania government itself is not speaking with one voice: while MOFEA speaks vehemently about GBS being the preferred modality, this is not so unanimously stated in line ministries. On the Government side, the handling of difficult political questions related to the political and economic independence are evoked, with

some complaining that some donors use GBS policy content to actually do what euphemistically may be called “entering the kitchen to do the cooking themselves”. Our view is that these questions must be looked into with care to see what can be done in order to increase predictability of GBS and allow it to function as the important tool for ownership it has potential to be.

The volatility problem associated with GBS has the risk of making this modality less attractive. GBS is proving to be risky both for DPs and for GoT. There are three types of concerns that various stakeholders have raised with regard to GBS. First, there is concern that GBS modality has allowed excessive DP intrusion into the domestic affairs. Second, there is concern that GBS has often become a victim of volatility of aid flows especially when tied or linked to political governance which is perceived to be unpredictable. Third, sectors in particular have expressed concern that the flow of funds from the MOFEA is subjected to vagaries of emergencies and disasters or other reasons for change of priorities in budget disbursements.

In our opinion, the first and second concerns point to the need to address the quality of dialogue between government and the DPs while the third concern points to the need to improve budget management to ensure predictability of resource allocation according to approved priorities.

It is recommended that:

- *GBS should continue to be the preferred aid modality.*
- *It is too early to pass any serious doubts on GBS for two reasons. First it is a relatively new aid modality still associated with teething problem and other challenges of implementation. Second, shifting to GBS has been more gradual than expected now accounting for below 50% of total aid suggesting that GBS has not yet been given a chance to function as a dominant aid modality.*
- *renewal of dialogue driven by openness and trust should be given high priority and key issues which will be subjected to open and frank discussion should be identified. .*

Basket Funding

As has been discussed in the section on sectors selected for more indepth study it has been observed that basket funding seems to stay on its own right and has not functioned as a transition to GBS. In practice this transition has proved to be very challenging. The envisaged transition from basket funding to GBS has been inhibited by large funds from the World Bank and the global funds which not only come in large amounts of funds but they operate outside the regular SWAPs. They have become large players operating in parallel structures like a super structure not integrated into the sector SWAp or basket fund. The government has not taken a firm stand in demanding a schedule of managing the transition from basket funding to GBS.

Concerns have been expressed by some DPs on the perceived capacity limitations in the sector strategies and programmes and the associated low absorptive capacity in some sectors (e.g. water and health have been given as examples). According these voices, interruptions in disbursements from the health basket funding originate from failure to meet agreed conditions and from internal delays of funds to reach districts. Regarding conditions not met it has been pointed out that a number of agreed triggers such as submission of planning and reporting documents from GOT is not done in time and discussions are not made as they should. Although DPs are willing to increasingly align to government procedures and systems the delays in submitting government documents on plans and reports as agreed is still a major problem. In addition, implementation capacity takes many forms such as late disbursement of basket funds, low absorption capacity, delay in tendering process, different financial management procedures among donors and delays in processing and warranting of funds and payments contributed. The challenge is to work towards being more realistic as to what is possible and what is not possible in any given time horizon. Development of the medium term health financing strategy is a recent development which may have come too late.

Basket funding and SWAp practices have been associated with capacity development in planning sectors and improvements made in education and legal sector reform are instructive. SWAps have involved broadening and deepening sector analysis taking into account activities of MDAs which contribute to the respective sectors. Identification and analysis of sector problems through SWAps and basket funding facilitates coordination or relevant MDA activities. This capacity for sector planning and coordination is an important building block towards effective management of GBs and budget management as a whole.

The risk for projectization of basket funding has been cited (e.g. health sector). Two challenges emerge in this regard. First is the challenge of managing the envisaged transition from basket funding to GBS and whether these expectations need to be revised. Second, is the challenge of averting the risk of projectization of SWAps.

It is recommended that:

- *the achievements of sector coordination through SWAps should be consolidated to make sure that the improvement is more institutionalized and is permanent.*
- *Efforts should be made to have all funds and dialogue go through SWAP so the government can send the right signals to all donors that SWAP and GBS are the preferred modalities of managing aid relationships at sector level.*
- *SWAps should be the first step in initiating coordination at the sector level and basket funding should be used initially as the funding modality to facilitate the transition from project aid to basket funding. However, the transition from basket funding to GBS should be stipulated in clear terms.*
- *Implementation capacity bottlenecks should be addressed in capacity building programmes in every sector to allow for smoother implementation of the sector programmes.*

Project funding

According to JAST, the project financing aid modality was slated to decline over time in favour of SWAPs and GBS. In addition, JAST has specified that direct project funds to the government are to be utilized for large scale infrastructure investment, for piloting and for emergency aid. However, in practice the prevalence of project financing has persisted and the type and size of projects to be amenable for project funding have not been defined. The team conducted a mini-survey on project financing and observed that

many projects which have been financed directly through project funding have been implemented smoothly and efficiently but others have not been implemented so smoothly

Timely contractual agreements, contractor procurements, disbursement of funds, mobilization of workforce and monitoring of the implementation on the sites are key factors that contributed to efficient and hence effective execution of these projects. As a result, compared to projects funded under GBS, key actors in the respective sectors expressed opinion in favor of project financing modalities where project funds are specifically ring-fenced and channeled direct to those projects through specific accounts. Survey results showed that many implementing officers prefer project financing to GBS due to easy execution of the projects. They only consider GBS funds if the funds directed to projects are specifically ring-fenced and channeled directly to those projects through specific accounts. As regards the use of General Budget Support (GBS) in financing of projects, some concerns have been raised over delays at the level of negotiations and procurement procedures as well as change of priorities when national disasters or other crisis conditions occur. However, there are also cases of delays in executing projects under the project financing aid modality. An example was cited of GBS funded project suffering from delayed implementation leading to escalating costs of implementation. This is the EU funded project for Isaka-Ushirombo-Lusahunga road network and Institutional Support to Transport Sector financed to the tune of 3 Million Euros by EU-EDF9 supposed to have been commenced by May 2009.

The problems of project funding have been discussed in many fora, but it is worthwhile summarizing them here. They include:

- Difficult to align DP funding with government priorities.
- Significant project funds are off-budget although some of them are captured *ex-post*.
- DPs sometimes are driving the development agenda and process instead of government
- Project funding is activity- based instead of objective- base, which is more comprehensive

- Projects create parallel islands of excellence and they weaken the government system
- When projects end, it becomes difficult to mainstream them into government system.
- M & E of projects is difficult to the extent intervention may not have any link to the overall policy or programme objectives or goals.

In spite of guidance from JAST some MDAs and some DPs continue to prefer the project aid modality. The incentives associated with these preferences include packages which come from project aid, enhanced personal relationships between some officials both on the government and Dp side. The government should be more firm about implementing the JAST and DPs should apply peer pressure to each other to help government implement the provisions in JAST.

There are two main pots for financing MKUKUTA and MKUZA, namely budget support and Government revenue.

It is recommended that:

- *the spirit of JAST should be maintained and in fact reinforced at the level of implementation in order to enhance alignment of DP funding with government priorities, promoting national ownership and government leadership and the managing the risk involved in creating parallel islands of excellence and weakening government systems.*
- *GBS should remain the preferred aid modality and project aid should be confined to large scale projects and pilots as proposed by JAST. However, a clear definition of what is meant by large infrastructure project should be provided.*
- *The current apparent persistence in preference for projects and/programmes by some MDAs and some DPs should be reversed with the help of clear guidance from the MOFEA that aid should increasingly be delivered through GBS and guidance as to circumstances under which projects aid is permissible.*
- *Clarification is needed to indicate circumstances under which project aid should be a transition to basket funding and specify the processes to be followed in managing the transition.*
- *During the transition:*
 - *Project aid should be properly disclosed and monitored while ensuring that the projects are aligned to the main MKUKUTA and MKUZA goals and objectives.*
 - *Project financing should be maintained within GBS whereby specific project funding is ring-fenced with a view to reducing the divergence between approved funding and disbursed funds for specific project implementation.*

3.1.3 Analysis of Vertical Funds and Special Off-Budget Programs and Utilization

Another category of aid includes the so called vertical funds and special programs. These come in different forms such as: (i) public sources like the Global Fund to combat HIV/AIDS, and tuberculosis and malaria (GFATM), (ii) the Global Environment Facility (GEF); as well as international foundations financed by famous private philanthropists of the category of Bill and Melinda Gates Foundation, The Aga Khan Foundation, and the Open Society Institute funded by Georg Soros, and others; (iii) Public-private initiatives initiated by private persons like the Clinton Global Initiative which in Tanzania has emerged as Mkapa Foundation, Sasakawa Global 2000, as well as NGOs of international stature like World Vision International, CARE International, Save the Children, Concern Worldwide, Action Aid, Africare, Axios, Pathfinder International, Help-Age, etc. International NGOs use local NGOs to reach the final beneficiaries.

The GFATM is a multi-year funding arrangement (with several disbursement tranches called Rounds) for both the Tanzania Mainland and Zanzibar. Its total pledge is US\$510 million, approximately US\$325 million of which is for HIV/AIDS only. A good part of the GFATM has increasingly been channeled through the budget system, but an equally significant part is disbursed directly to CSOs. Additional direct (and off-budget) donor HIV-AIDS support is also provided for example through the Rapid Funding Envelope (RFE) managed by Deloitte & Touche company together with the Department of Health Science of the Muhimbili University College, principally aimed at supporting short-term needs of CSOs in the AIDS/HIV areas.

The United States is the largest bilateral donor providing money off-budget³, mostly under the Millennium Challenge Corporation (MCC) and US President's Emergency Plan for AIDS Relief⁴(PEPFAR) arrangements. The MCC has made a grant of US\$ 698 million in 2009 (possibly the largest single MCC grant to any country) principally for transport infrastructure, energy and waters sectors. The PEPFAR fund is destined for

³ Even if possibly "on-plan" and included under the government prioritisation mechanisms

⁴ Source: TACAIDS

HIV/AIDS activities in Tanzania and through USAID and Centre for Disease Control (CDC) to the defence forces, as well as to the RFE, MOHSW, health faculties at universities and NGOs/FBOs. Beginning in 2004, Tanzania's PEPFAR received over \$70 million and its funding has grown each year to reach over \$250 million in 2008.

Most of the vertical funds referred to above are not aligned to national financial management systems and thus impose their own parallel planning, implementation and monitoring systems. They seldom harmonise with other aid agencies working in the country. Some of these funds do not cover all costs, and for them to be delivered the government has to cover overheads and any additional resources required, including staff remuneration and hence causing further strain on Government budgetary resources. On the other hand, when these funds are provided to address emergency situations, they can be useful and punctual in providing the assistance needed.

The Ministry of Health and Social Welfare is one the major beneficiaries of the Global Fund grants. The Fund support efforts to fight AIDS, Tuberculosis and Malaria since 2001. Global Fund grant has been overseen and managed by Country Coordinating Mechanism under the Prime Minister's Office. The Ministry of Finance and Economic Affairs (MoFEA) has so far been the Principal Recipient (PR) of the Global Fund Grant for the public sector. The Ministry of Health and Social Welfare is one of the key actors in the management of the grants although not the PR of all grants. The main objective of this project is: Filling Critical Gaps for Mainland Tanzania in the National Response to HIV/AIDS in Impact Mitigation for Orphans & Vulnerable Children, Condom Procurement, Care & Treatment, Monitoring and Evaluation, and National Coordination. Implementation of the proposal for this grant was divided between four Principal Recipients (PRs): the Ministry of Finance, PACT Tanzania, Population Services International (PSI) and the African Medical and Research Foundation (AMREF). Generally program performance rating as at March 2010 is adequate. This program has developed a powerful national response to HIV/AIDS with key inputs from partners. After initial adjustments and adaptations the pace of implementation has picked up and scaling up of program activities has occurred.. The most notable achievement to date is putting 80,628 people on antiretroviral (ARV) drugs (115% of target).

However, there remain a number of areas where performance is poor. These include counseling and testing (35% of target reached); health care facilities equipped to provide advanced-level HIV/AIDS care and support (58% of target); and HIV/AIDS patients screened for TB (65% of target). Much of this underachievement has been attributed to procurement delays and human resource constraints. Consequently, the Secretariat includes a number of conditions and time-bound actions to this recommendation to address these issues in the near term (refer to page 3 below for details).

There are concerns regarding the quality and timeliness of SR financial and programmatic reporting. This is in-part due to the various challenges faced with regard to the program's monitoring and evaluation (M&E) systems, which remain weak throughout the country. This highlights the urgent need to implement the M&E Health System Strengthening Tool in the near term to ensure that a sound M&E system is in place for Phase 2. The PR must also be more proactive in monitoring the full range of activities implemented by the SRs in Phase 2. There is also a need for better coordination of the various government stakeholders involved the HIV/AIDS response.

The lack of coordination to date has often delayed implementation of critical activities particularly where the implementing agency is from the non-government sector. Country Coordinating Mechanism (CCM) oversight and governance is one of the key strengths of the Tanzania program. This mechanism has undertaken several measures to improve its functioning including implementing a management dashboard and increasing the frequency of meetings. The management dashboard provides an update on grant performance, bottlenecks and other issues to be addressed by the CCM. The CCM's successful management of the procurement bottlenecks and the recently launched national testing campaign has continued to demonstrate the strength of the mechanism. The Secretariat classifies this Request as a "Conditional Go". Prior to and during Phase 2, the PR should focus efforts on fulfilling the suggested conditions and time bound actions as stated on page 3 of this Grant Score Card.

It is recommended that:

- *Vertical funds should be reckoned with as a part of the new aid architecture and innovations should be applied to manage these resources in a manner which is consistent with JAST.*
- *Vertical Funds should be subjected to further investigation to establish its potential benefits and distortions that may be created by these funds for Tanzania. The outcome should be a policy developed to maximise benefits and manage distortions.*
- *Vertical funds should be aligned to national financial management systems. They should be incorporated in relevant SWAPs so that the activities funded reflect sector and national priorities as stipulated in SWAPs and MKUKUTA and MKUZA .*

3.1.4 Non-OECD/DAC External Financing Flows

Global Changing Donor Picture

The international development finance system has over the last two decades or so become more and more complex, consisting of different international organisations, funds and programmes, as well as bilateral agencies members and non-members of OECD/DAC. Non-OECD donors do now contribute more than 10% of ODA (UN-DESA). The numbers include a growing group of emerging economies, nearly everyone registering high growth. Most of them have dual positions as both receivers and providers of ODA. They also include an increasing number of private philanthropic foundations, private-public global funds and programs, without forgetting thousands of CSOs providing or being used to transmit aid to developing countries. Information on external aid resources spent by NGOs in Tanzania is very scanty and the current IMG exercise has not been able to make any headway on this score⁵. The number of ODA donor agencies(bilateral and multilateral) operating in Tanzania is over 40 but some of the Development Partner (DP) countries operate with more than one agency.

While the sources of external aid have expanded, the concept of poverty addressed in the ODA policy agenda has been widened to include many dimensions of poverty. The result is that the large diversity of donor interventions can be induced by different motives; although what matters most is that they all lead to achieving development results including poverty reduction in the recipient country. This pattern diversifies the strategies, tools and methods used in development cooperation as well the spectrum of

⁵ The data captured by AMP appears to be that provided by a few DPs stationed in Tanzania and is definitely quite partial

sources of funds in the recipient country like Tanzania. This trend should also influence the tone and nature of dialogue based less on processes and more on development results with the indicators designed to demonstrate results and outcomes.

Emergence of “new” Donors

Apprehensions on expanded motive of aid giving, have played a big role in inducing recipient countries from time to time to circumvent the Paris Declaration (PD) frame in order to meet their practical development needs and requirements. They do so by exploring opportunities provided by non-DAC donors that may not want to tow the common line of OECD/DAC or PD principles embraced in the expanded development cooperation agenda.

The non-DAC donors with rising impact on development aid have been labelled differently like emerging donors or new donors. They include a number of former poor countries and those that resulted from the collapse of the socialist bloc in Eastern Europe. Almost all of them have made spectacular economic gains in the last two decades and are now in a position to provide significant ODA to poorer countries. But some of them actually have history of giving aid for as many decades like traditional donors. The label of new donors has gained prominence in the discussions under the OECD DAC, and the current Study got it from the TOR. Any way, the end result in the aid architecture is a fragmented and opaque global aid industry that is difficult to monitor and evaluate. In the current IMG exercise, such difficulty manifested itself in opaqueness of aid information: like inadequacy of data captured at MOFEA or on websites, difficulties in accessing embassy offices for interviews, difficulty to meet relevant cooperation officers⁶, and so on. The data available on non-DAC donors is thus rather sparse particularly for the new donors and for vertical funds. The information made available by MOFEA is indicated in Table-5 below.

⁶ Though these difficulties could also possibly be due to lack of dedicated staff at the embassies who deal solely with promoting development cooperation; or to highly centralized decision making impacting on what information can be released to visitors.

Table-5:Emerging Donors: Disbursements FY 2001/02 – 2007/08 (TShs) (Source: MOFEA Feb 2010)

Donor	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
CHINA	4,506,100,000	1,145,530,000	19,200,000	-	-	-	-
KOREA	-	-	-	-	-	415,497,870	382,488,983
Kuwait Fund	-	122,162,227	-	-	-	-	-
SAUD FUND	-	66,602,830	-	-	-	-	-

In Tanzania the “new” donors that have been active or have been approached for assistance include the big four or the BRIC, meaning Brazil, Russia, India and China, plus a score of others with varying importance, like Kuwait, Abu Dabi, Saudi Arabia, Turkey, Indonesia, Vietnam, Malaysia, Iran, Libya and Egypt. But for historical links with Tanzania and the size of their global ODA potential, China, India and Korea⁷ would seem to be of strategic interest, without forgetting the role of Pan-Arabic institutions like BADEA and the Arab dominated OPEC Fund . Below is a summary of information on three countries of China, India and Korea, because they are considered important in forging strategic cooperation.

China: This country has expanded ODA very rapidly in the last decade. On the other hand, the DAC definition of ODA in the case of China is often blurred: aid is mixed with commercial and semi-commercial loans and often it is a precursor to investment activities by the Chinese public and private companies. Chinese aid to Tanzania has in the recent past been diversifying into using varied instruments to supply development assistance. Apart from conventional ODA offered directly to GOT , conventional project finance and politically promoted project finance are accessible from by Chinese government banks and special funds such as the China Development Bank (CDB), China Exim Bank, Industrial Construction Bank of China and China Africa Development Fund, some of which are sector oriented⁸. Dependable data on the volume of China’s ODA globally (and to Tanzania) is therefore not easy to come by (a worldwide figure of US\$5 billion in 2006⁹ has been mentioned). The current aid

⁷ Tanzania seems to have gradually increased its economic relations with South Korea vs-a-vis North Korea after economic liberalization in the 1990s

⁸ A few Chinese private funds and banks (like China Merchant Bank and Chinese International Fund) are testing waters but have not been significant except in Guinea and Zimbabwe.

⁹ Source: FES Briefing Note Number – see References (A Case for India...)

portfolio is dominated by large soft loan investment programmes in physical infrastructure including ICT (2 outstanding projects costing US\$70 million and US\$100 million respectively) , Zanzibar International Airport (US\$70million), a Water project (Chalinze) and a large national stadium.. Discussions are linked to possible exploration and exploitation of oil, natural gas and other mineral resources and significant support to the TAZAZRA railway.

Prospects for greater aid from China can be seen as reflecting the increasing volume of Chinese trade with Sub-Saharan Africa which jumped from US\$10 billion in 2002 to more than US\$100 billion in 2008 and Chinese government infrastructure investments in Africa between 2006 and 2009 estimated to about a total of US\$ 20 billion, with aid doubling during that period.

Yet optimistic expectations must be tempered for two reasons. First, China has little possibility of expanding worldwide ODA rapidly further as it is more involved in implementing large domestic infrastructure construction works and also in promoting overseas private investments (mostly in manufacturing) and trade where China has a consistently favourable balance. But with Tanzania, there is no reason to doubt why Chinese assistance should not be increased significantly. A Chinese Delegation from the China Development Bank (CDB) which visited Tanzania in 2009 agreed to explore assistance and expanded cooperation in the sectors of finance, infrastructure (*inter alia* including the revitalization of the TAZARA), energy, mining, agriculture (especially irrigation and setting up an agricultural bank) and human development. The Tanzania media has highlighted big interest in China financing telecommunication projects and uranium mining.

The second reason is that China has opened many strategic partnership options in Africa, tied to exploitation of natural resources needed in China. Tanzania is therefore competing on this front and cannot take its historical links with China for granted. The improvement of the business and investment environment within Tanzania is the best leverage that can be used to attract more aid from China. This has to be backed by Tanzania capacity to attract quality investments and to enhance positive trade flows

with China. It is therefore important to ensure that the country aid strategy in JAST-II highlights appropriate supports to capacity building efforts in these areas.

India: Between the years 1951 and 1992, India became the world's largest recipient of aid, receiving US\$55 billion in foreign aid. But roughly from the mid-1980s, India transformed from that position to become a net donor¹⁰. During 2008 with a GDP growth of about of 9%, India allocated close to US\$547 million to aid-related activities and approved US\$2.96 billion in Lines of Credit mostly to Sub-Saharan Africa (SSA). .

What propelled India to assert to become a donor when it still has many poor people in its growing economy? The country is striving to assert its growing geo-political importance internationally and wants to leverage for a greater strategic role as a leader in South-South cooperation. Thus India announced a new aid policy in June 2003. It made clear: it would not accept any tied aid in the future. It strategized its aid relations so that bilateral aid would be welcome only from five countries, namely: UK, USA, Russia, Germany, Japan and the EU, although later in September 2004, donors such as Canada, France, Italy and the Scandinavian countries were reinstated. The Indian government announced the India Development Initiative (IDI), set up under the Ministry of Finance, in order to leverage and advance strategic economic interests overseas. India's ODA (85% tied) is a mix of project assistance, purchase subsidies, lines of credit, travel costs, and technical training costs. Substantial Indian aid has gone by a clear priority to the immediate Indian neighborhood, namely: Bhutan, Nepal and Afghanistan.

Concrete statistics of Indian aid to Tanzania are difficult to get, but in 2006 Tanzania was the largest aid recipient of India's bilateral ODA outside South East Asia. In 2008, India extended a line of credit to Tanzania amounting to US\$40 million to purchase agricultural goods, tied to procurement from India. As such, this kind of assistance cannot be expected to be aligned to the Tanzania budget system of procedures. The

¹⁰ Source: India: Transiting to a Global Donor by C. R. Bijoy *Campaign for Survival and Dignity*

cooperation is typically sector oriented favouring the sectors of agriculture, tourism, road construction, industry and energy. These sectors are likely to benefit India's export market or provide needed raw materials.

Currently three Indian funded projects are under implementation: a small industry information centre (by NSIC); a Centre of Excellence in ICT; and the pan-African e-network project. At the Joint Technical Commission (JTC) meeting in May 2007 India agreed to provide technical support for preparation of a feasibility report of a cyber city project in Arusha region. Tanzania is also one of the largest beneficiaries under Indian Technical and Economic Cooperation Programme (ITEC- with 100 student places in 2007-08).

According to Tanzanian government statistics, during 1990-2006, 118 companies with "Indian interest" invested a total of \$825 million. In September 2007, the Tanzania Railways Limited (TRL) gave a concession to RITES (of India) for 51% shares to run Tanzania railways for 25 years¹¹.

Increasingly India may be looking over its shoulder at China and viewing it as a main economic and geo-political rival and competitor, especially in and around Africa. India may in this regard be focusing towards nations within or bordering the Indian Ocean, *inter alia* including the East Coast African countries such as Mozambique, Kenya and Tanzania. Whereas regional and strategic goals are undoubtedly the aim of India's assistance to South Asian nations, the assistance to Africa clearly extends beyond this to highlight combined interests of commercial and political nature.

Korea¹² has joined the development aid industry relatively recently. It joined the OECD in 1999 and was intending to join DAC in 2010. Within Tanzania, it recently joined the DPG. To meet the OECD/DAC aid principles, Korea plans to expand its ODA to achieve a ratio of ODA/GNI of 0.1% in 2010 and 0.25% in 2015, with substantial untying of its

¹¹ Unfortunately, this project has run sour and the agreement with RITES is due for termination

¹² Here the information is about South Korea as Tanzania's cooperation with Northern Korea is no longer as important as it was prior to the 1990s

aid. Its aid to Africa intentionally targets mainly agriculture and education sectors but has increasingly invested in ICT, health and infrastructure sectors¹³. Starting modestly with a South Korea Initiative for Africa Development (KIAD) in 2006, the initiative aims to support capacity building of African countries under which Korea pledged to triple its ODA to Africa from \$39.1 million in 2005 to \$100 million by 2008.

Tanzania's cooperation with Korea started in the 1980s with a general cooperation agreement signed in 1985. Through the Korea International Cooperation Agency (KOICA -founded in 1991) Korea started providing development assistance to Tanzania in 1992. KOICA selected Tanzania as a priority partner country in the East African region due to what Korea assessed as Tanzania's high development potential, supported by its macroeconomic stability, strong government efforts for good governance, and continued GDP growth. Between 2001 and 2007 Korea had provided about US\$16.5 million grant assistance in projects and in-kind in the sectors of education, health, water and agriculture (irrigation). Korea's support has facilitated in the establishment of four new Regional Vocational Training Centres in Tanzania. KOICA financial assistance grants have also been extended to set up projects for development of ground water in Dodoma and Shinyanga regions. More recent financial assistance have been negotiated, including loans for about US\$42 million in education and road construction (Malagarasi bridge). Korean private business ventures are being encouraged to invest in Tanzania: for example in 2009 The Korea Rural Community Corporation (a Korean government enterprise) was planning to invest over US\$50 in a large farming project to produce food products for the local market and for shipping to the EU. Other ventures are to be promoted by the Korea EXIM Bank.

Four underlying lessons (of which actually two are also challenges) for Tanzania's development of strategic aid relations seem to emerge from information on aid from China, India, Korea and other "new" donor countries indicated above, namely:

- The historical connection especially in the case of India, China and the Arabian Peninsula countries, which Tanzania should nurture and exploit positively

¹³ Source: Ministry of Foreign Affairs of South Korea (in internet)

- The geographical factor: particularly the proximity and facility provided by Indian ocean transport to trading
- The positive evaluation of Tanzania as a safe cooperating partner, safe in terms of aid management, which points to the fact that emerging donors largely depend on the evaluation of aid use done by traditional donors).
- The vital importance given by the new donors to the potential for their countries' trading and investment in natural resources exploitation (here we note the increasing use of special aid agencies (Funds) and banks to manage the government aid allocations rather than the traditional development aid ministries found in OECD countries) .

There are certain common features that have been observed in the type of assistance or aid management styles applied by the “new” donors, namely: (i) tied nature of aid for the larger countries (like China and India), (ii) preference for infrastructure related sectors like transport, ICT and water and for the Arab Funds the tendency to go for co-financing with other donors especially BADEA., (iii) aid managed from home offices and thus absence of coordination with the DPG umbrella, (iv) projects approved on multi-annual rather than annual allocations (thus difficulty in fitting the format in Table-2 above), and (v) aid commitments made not as annual packages but as sporadic political gestures, especially the small grants . In addition, less and less grants are now provided, with preference shown for soft loans. Because there are no systematic annual general consultations between GOT and these donors and also the latter do not operate with open integrated country assistance strategies applied to Tanzania, project identification and priorities are set by the Tanzania government and funding commitment is made upon specific requests by the GOT. Until any of these countries decide to join the DAC format like Korea, there is little prospect for them to provide GBS to Tanzania in the near future.

Lastly, the way India has strategized its phasing out aid dependency and its ODA giving should not escape our attention.

The **share of ODA flows from emerging donors** in the total international ODA has been increasing rapidly and today is perhaps around ten per cent¹⁴. In the case of Tanzania, even if aid from non-DAC donors increases significantly over the years ahead, DAC ODA can realistically be expected to remain the dominant source of concessional official finance. In fact, some people may argue that the overall impact of new donors on Tanzania's policies will not likely be excessively strong if they act in isolation of the DAC and the DPG. For this reason, some emerging donors may choose to come closer to the DAC positions in general aid posture or in particular cases may choose to remain aloof. This may help them to be seen as sincere development partners; devoid of wielding the policy conditionality beat stick or other constraining normative guidelines. Yet, even comparatively small increments of aid that Tanzania may receive from the emerging donors will help the country gain considerable freedom of maneuver in resource application outside the constraints that sometimes are imposed through agreed frameworks with groups of traditional donors.

The above discourse may sound rather incompatible with the Paris Declaration principles of harmonization for sustainable poverty reduction strategies. But judging from some statements made in Accra in 2008 during the HLF-III, there are occasions when non-conformist partner country actions are needed for making a breakthrough in development that initially may not gain favour with the traditional donors. Such single-minded approaches have been made in Tanzania with the construction of the TAZARA and in recent-years the expansion of the road network. The results have not been regretful. Ironically, it is such bold postures that in fact demonstrate what country leadership and ownership of the development process is all about.

¹⁴ Bertil Oden and Lennart Wohlgemuth, 2009: Where is Swedish Aid Heading?

It is recommended that:

- *Where emerging donors are present and even if they are not always active in Tanzania, they should be engaged at the country level dialue.*
- *The activities of the new donors should be drawn closer to aligning with country systems and policies.*
- *Cooperation (and dialogue) with the new donors should be regarded as essential in the implementation of MKUKUTA and MKUZA. The aid strategic partnership with the new donors should be clearly shown in JAST-II.*

3.1.5 Technical Assistance Policy

Technical assistance has been a major preoccupation in Tanzania ever since independence. The objective was originally to recruit expertise that could fill vacant posts until Tanzanians had been trained to take over these posts. This was particularly relevant at a time when local trained/skilled human resources were inadequate. As the education situation in Tanzania improved the need for such gap fillers declined. Technical assistance then changed its form and concentrated in areas of education, capacity building and technical support. The number of foreign expertise decreased substantially over the years. More and more of the technical assistance staff are today recruited on a consultancy basis or through an institution that collaborates with a counterpart institution in Tanzania.

(i) Current Practice

Originally in the 1960s Tanzania did its own foreign technical experts recruitments via a recruitment office in the UK and international advertisement. With increasing aid the donors took over the TA recruitment process and supplied the experts that Tanzania requested from them. This became the norm although it was at times highly criticized. The main questions raised were whether recruitment of experts was demand or supply driven, whether the experts had the right qualifications and whether the relation between the expert and the local staff with whom the TAs had to work was healthy and conducive to local capacity development. .

The process of recruitment of foreign staff is now being managed in Tanzania by the President Office- Public Service Management. A unit in the Human Resources Development Division is responsible for this task guided by established rules which are

documented in special circulars. The unit is also responsible for monitoring the implementation process.

Making robust analysis of TC trends in Tanzania is not possible due to a lack of reliable data. A recent study states that TC delivered within a project framework is still the most common and preferred modality for many DPs and estimates that nearly 40 per cent of total TC to the country is still tied to the project delivery modality. It is estimated that some 3,800 foreign TA personnel were recruited in the public sector in Tanzania (Mainland) between January 2004 and June 2006.

It was found that TC has contributed considerably to implementation of reforms and realizing development results at the level of the respective organizations and sectors in Tanzania over the past 15 years or so. In addition, there has been substantial progress towards creating a more conducive environment for using TC. The perception survey of the Joint Study on TC for CD reveals a set of key factors that make TC contribution to CD effective, as well as those that undermine TC effectiveness (see Box).

Box 5: Ranking of key factors contributing and undermining TC effectiveness

Contributing to TC effectiveness

- TC linkage with other forms of support (e.g., infrastructure and equipment support);
- Organisations with commitment to change and reform;
- TC effectiveness in increasing learning and reflection within organisation and in facilitating change.

Impeding or undermining TC effectiveness

- Lack of country-led CD plans at sector or at the level of Ministries, Departments and Agencies (MDA);
- Lack of capacity assessment in targeted organisations;
- Weak commitment to change at national and organisational level.

Source: UROT (2008: 16)

(ii) Some Observations on the draft Tanzania Technical Assistance Policy

The need for the formulation of a policy framework on Technical Assistance was spelled out in the JAST and agreed between the Government and DPs as part of the JAST work plan in 2005. In the JAST it is specified that a Technical assistance policy should be developed with the objective to make clear the Governments specific intentions on when to ask for technical assistance and to make the control of the process of recruitments and implementation of technical assistance more precise and transparent:

Issues to be addressed in such a policy framework were already discussed between 2004 and 2006 during a series of workshops and papers on aid harmonization, capacity development and technical assistance. While DPs addressed this issue from the angle of addressing TC/TA in its entire scope including how this resource should be managed, Tanzanian stakeholders principally looked at the issue from a concern to bring down the number of international TA personnel deployed in Tanzania and thereby to limit costs for what was generally felt as little Value for Money.

A draft of the NTAP has been developed by the Government and a dialogue has taken place between the DPs and the Government on details of that policy. It appears that certain issues have so far not been clarified between the two parties and that more discussion is therefore needed.

DPs reacted positively to the launch of this Draft NTAP. Comments on the content of the paper have concentrated on:-

- A search for a clearer vision and rationale about what this policy paper should serve and address;
- The definition of TC, TA and associated personnel to be clear and consistently used throughout the document to address the key concerns of the Government;
- A clearer definition of the broad patterns of practices between supply driven, demand driven and a combination of both and

- Finally, clearer orientations for DPs and the Government on how to move forward as well as guidance on cooperation modalities that are considered most effective for promoting capacity development by strengthening chapter five on Policy issues and Statements.

Thus while DPs welcome the initiative and see the formulation of such a policy as indispensable, there is concern that the effects of such a policy may not be felt as long as it is not supported by a clear policy position/ vision on the part of the Government on where to go with TC, what to include and what to leave out, and how to proceed operationally. Similar concerns have been raised when comparing the draft TA policies in Cambodia and Zambia. While Government agrees to most of these concerns it has also emphasized that the objective of the TA policy is to provide general guidance on the role of Government of Tanzania in TA management leaving detailed operationalisation of the policy to the forthcoming TA Strategy and Action Plan..

(iii) National Technical Assistance

Where expertise is needed, there is a clear message from Government that nationals should be sought first. This follows demands to provide opportunities for Tanzanians and to avert the risk of international migration of the educated nationals. This position is today most clearly stated in a Government circular from PO-PSM, which instructs MDA's "to limit the recruitment of international TAs to ten persons per public institution" and give preference to nationals where they have the comparable competencies and experience.

This approach is highly commended. However this should be implemented in the context of promoting ownership and alignment. When donor funds are used for the procurement of national TA concerns over effectiveness, ownership and accountability are still relevant.. In TC projects and programmes managed by a DP, national expertise recruited and managed by a DP have tended to be more accountable to the DP than to the host organization, a situation that is similar to concerns over international TA. In reform programmes, which are financed through Government managed sector/common

basket funds, ownership and accountability of international TA who reports to a national can be as strong as for a NTA.

Evidence suggests that national expertise, very similar to international expertise, is often used for gap filling, rather than for supporting Capacity Development. As a result, there is a risk that little capacity is developed by the time a NTA assignment is over. These issues of sustainability are also not solved in the context of Government managed sector/common basket funds. This must be solved through improved human resources management in the public sector with the aim of utilizing NTAs as a strategic instrument for promoting organizational development.

To improve the utilization of National Technical Assistance it is recommended that:

- The first priority is to implement a pay reform with the aim of making it attractive for skilled and qualified Tanzanians to work in the public sector. A study on good practices in attracting and retaining skilled personnel should be made and its results implemented;*
- DPs should continue to reduce the number of separately managed projects in order to reduce undue demand for project advisors and staff to run parallel processes, and to explore other forms of CD support – such as institutional twinning or distance counseling and advice – instead of the recruitment of (N) TAs;*
- Priority should be given to National Technical Advisors while improvements in incentives to public servants being worked out more generally.;*
- Draw up a more realistic picture of the different roles NTA should be expected to play: a role that can combine gap filling with capacity development to help keep systems within an organisation working, while bringing in expertise that can introduce better ways and approaches to working, new systems and procedures and demonstrate good work practices and work ethics;*

- *Pooling of TC funds should be used to promote capacity development and national procurement should increasingly be used for mobilising expertise under conditions of clear roles and responsibilities of the Government and DPs .*
- *Government should finalize its position vis-à-vis mobilization of resources from Tanzania's Diaspora, which includes both financial and human skills resources.*

3.2 Progress in Aid Effectiveness

This section addresses progress aid effectiveness in three main blocks. The first block makes an assessment of progress in the principles laid out in JAST and Paris Declaration. This block of issues cover the implementation of the JAST principles and aid effectiveness agenda and how such progress has been supported through the MKUKUTA and MKUZA framework. The second block makes an assessment of the dialogue involving the Government, DPs and Non-State Actors along the lines provided for in the Joint Assistance Strategy (JAST), launched in 2006. The third block of covers lessons that are drawn from the four sectors which were selected to demonstrate developments in dialogue and aid effectiveness.

3.2.1 Assessment of Progress in the Principles of Aid Effectiveness

The JAST principles are similar to those of the Paris Declaration, which are discussed in this report.. The assessment presented in this report is based on two main sources of information, namely, the Paris Declaration Baseline Survey 2006 and the follow-up Survey 2008 together with detailed qualitative assessment on the key changes with regard to national ownership and leadership, alignment and harmonization, managing for results, mutual accountability, capacity development and dialogue structure. Some respondents of the current IMG exercise have also made indirect remarks on the JAST which have been reflected.

(i) National Ownership and Government Leadership

Increased ownership is the centerpiece of the Paris Declaration and the JAST. However, there is slippage in ownership, apparently undermined by both sides. On the donor side DPs sometimes take the stand of local constituency instead of government, even when the budget is derived 70 per cent from domestic resources. On the part of government, there is a preference of project financing over GBS and Basket funds on the part of some MDAs. In total, with regards to aid effectiveness, Tanzania may partially be taking steps backwards as aid flow is threatening the ownership principle.

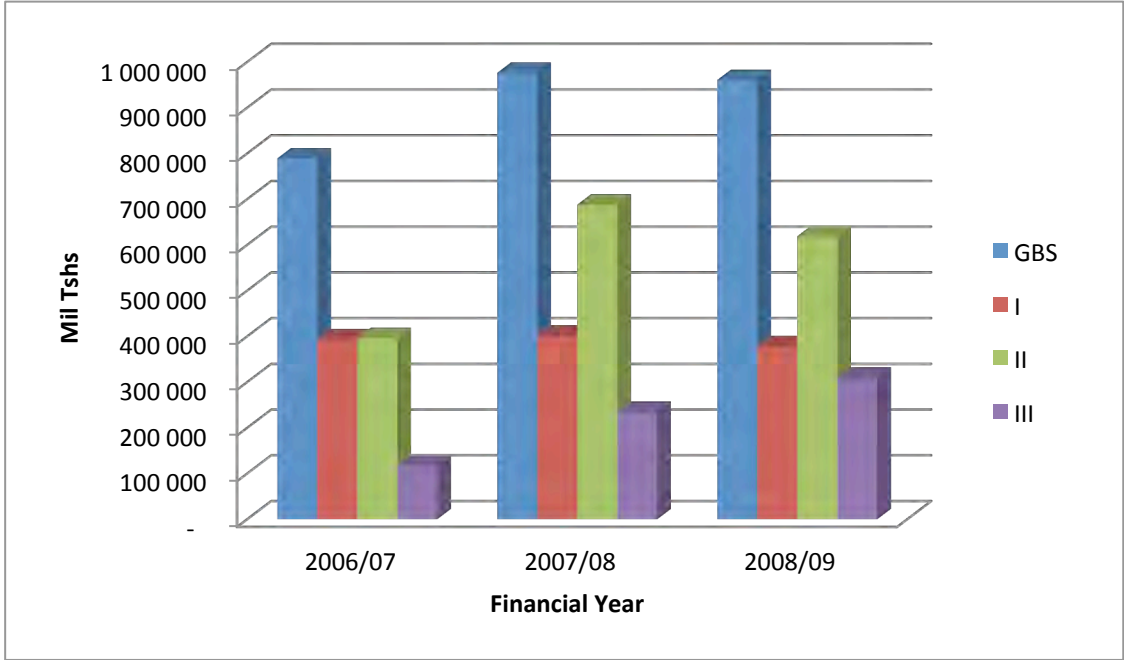
Without ownership there cannot be meaningful harmonization, alignment, mutual accountability and managing for results and hence there will be no sustainable results with regard to Tanzanian development. History has shown that this common sense conclusion is very difficult to uphold in practice. It requires on the one hand that Government is prepared and has the capacity to take the lead at every opportunity given to them, and on the other that donors do not and should not take the lead when the Government plays its leadership role. The Government must be able to say NO to any proposal that would compromise its priorities and systems.

Indicator 1 of the PD targets assessed whether or not a country has an operational development strategy so that donors can align their development assistance. Based on the World Bank's Aid Effectiveness Review, Tanzania received a B rating in the 2006 Baseline Survey. This means that its medium- and long-term operational development strategies are largely developed but at a B grade. From the 2008 survey, Tanzania maintained a B rating according to World Bank's 2007 Aid Effectiveness Review.

In terms of government leadership, the 2008 PD Survey revealed several areas where Tanzania back-tracked the progress observed in the PD Baseline Survey in 2006. Stronger Government leadership and clear articulation at all levels of Government is needed to provide guidance as to how aid should be delivered. In this regard, Government leadership is essential in improving quality of dialogue among others. Strong Government leadership is also needed to engage emerging donors and progressively bring their development cooperation into alignment with the principles of the JAST and the Paris.

The extent to which aid allocation has been aligned to the national priorities as expressed in MKUKUTA and MKUZA is addressed. As shown in Figure 1, funding of Cluster I, which is focusing on Growth and Reduction of Income Poverty, has been relatively low; meaning that less importance is attached to the sectors which have high potential to stimulate growth and that the low level of allocation could be due to anticipation that the cluster would also get funded under the project modality. In spite of increased funding to Cluster II, education received less allocation at a time when expansions were being implemented. This suggests that funds for expansions came from elsewhere or funding of operations may have suffered, a situation which could be reflected in poor quality of education service delivery.

Figure 1: Aid Flows to the MKUKUTA



Source: AMP Data Base from MOFEA, 2010

There is also the problem of prioritization in financing MKUKUTA and MKUZA. The clusters are too broad such that any donor finance going into the clusters (including off-budget project funding) will have contributed to financing MKUKUTA and MKUZA. In this area, some stakeholders feel that there may be a need to go back to comprehensive planning system in order to prioritize the implementation of MKUKUTA and MKUZA, and allow better and predictable ways of resources allocation.

They feel that a suitable central planning system will also help the government in managing the proliferation of donors, sometimes with different agendas, and will improve its control over its development programmes.

The reporting system for MKUKUTA whereby one report is prepared for all constituencies has been commended as a move in the right direction. The PAF sets out medium term targets and indicators for macroeconomic stability, performance improvements in the public sector and financial management, together with specific annual actions to be implemented by the Government to achieve the agreed targets. It also consolidates targets and measures related to other on-going public sector reform processes. The problem is that PAF agreed targets have not been met in most times in recent years. PAF achievement has been low at 50% in the last 5 years. This should have called for closer scrutiny of the realism of these targets and on the commitment to achieving the agreed targets. This points to weaknesses in the dialogue itself. A dialogue which reaches agreement which is not achieved repeatedly has a basic problem which should be addressed openly and frankly. This raises serious concern calling for closer scrutiny over PAF processes with a view to developing clear criteria of performance and discusses the targets with greater transparency through open and frank discussion.

One problem which has been raised by government side is the preponderance of bilateral agreements which seem to take precedence over PAF. On this point government should stick to the harmonization to the Paris declaration principles when they negotiate and sign bilateral agreements and development partners should not depart from the national development framework as a reference for setting targets and conditionalities. There is a provision to the effect that if differences arise between the signatories (Government and GBS Partners) regarding the interpretation, application or performance of the agreement reached between government and DPs, they will consult with each other in order to reach an amicable solution. This provision has not been used fully. The provision should be adopted to the full in all cases where there are differences in interpreting the provisions in the PAF.

In our opinion, the performance of GOT in PAF reflects the low quality of PAF, pressure from DPs to have GOT make achievements rapidly by doing too much in too short a time. Development cooperation has to be sufficiently discussed in terms of the big picture of the development framework and progress made in meeting the development agenda with clearly stated development results. The government should show greater clarity in its development agenda from which it will derive what it wants to achieve in terms of development results. These should in turn form the basis of PAF targets. The balance between equity and efficiency in public service delivery has not been clarified in policy dialogue. Greater effort should be put into getting the implementation reports in good time and with greater clarity. We are convinced that DPs should tone down the ambition in some cases and GOT should push for realism taking into account the real absorptive capacity and implementation capacity. Too many items in PAF are not desired. Both sides should agree on a few critical indicators which are implementable given the time frame and the implementation capacity considering that the poor performance in the PAF is partly attributed to the low implementation capacity. The realities of capacity to implement PAF should be taken into account more carefully in designing and agreeing on PAF targets.

In our opinion, GOT needs to organize itself better for policy dialogue. It has been observed that dialogue between GOT and IMF has been going well in recent years due to the high quality of input by GOT resulting from good preparations fully involving senior officials from all relevant GoT departments. The same should be emulated for preparations for the national development agenda and sector policies. Clarity in these areas has important implications on JAST, PAF and DPs dialogue with GOT. Therefore how to handle and manage the development framework is very important and needs to be decided on at high level. Here close collaboration between MOFEA and the Planning Commission is recommended. The lead in this regard may be taken by Planning Commission and MOFEA supported by a team of senior officials assisted by experts so that the level of preparations and the profile of the policy dialogue can be raised to new levels consistent with increasing demands for development results globally.

(ii) Alignment

Alignment focuses on using and strengthening national processes, systems and procedures. The Paris Declaration encourages donors to make increasing use of country systems where these are of sufficient quality and to work with partner countries to strengthen them where they are not currently of sufficient quality. These include national budgeting, exchequer operations, accounting systems, procurement, reporting and auditing. For aid to be effective, it must be aligned with national development strategies and plans

The Paris Declaration envisions donors basing their support fully on partner countries' development strategies, institutions and procedures. As a result of the JAST, Tanzania's ratings for alignment reveal some progress since the 2006 Baseline Survey, but continued efforts are needed in particular with integrating ODA into the national budget and improving predictability of aid disbursement.

Of the five principles of the Paris Agenda the alignment principle is s the most difficult to adhere to. The following indicators examine a number of dimensions in assessing the degree of alignment attained.

Public Finance Management System: Indicator 2a assessed the degree to which Tanzania has put in place Public Finance Management System (PFMS) systems that is in line with broadly accepted good practices. In 2006 Tanzania received a rating of 4.5 on a six-point scale, significantly above the average of 3.2 for all countries rated in the World Bank's Country Policy and Institutional Assessment. The target is to get a rating of 5 by 2010.

Since the 2006 survey, the government has made significant progress in strengthening its public financial management systems. Through introduction of an Integrated Financial Management System (IFMS), the government has taken a major step toward being able to produce more timely and accurate revenue and expenditure data. The IFMS has already been rolled out to all the regions and all districts except a few (36). As

a result, more LGAs are receiving clean audit reports from the Auditor General. In the budget management process, the Government has adopted consultative fora with

stakeholders, including the annual PER, and the General Budget Support (GBS) process, as well as the MTEF. These open processes have resulted in greater transparency and accountability, thereby enhancing public and stakeholders' confidence in the government PFM systems. Recent observations point however to some problems in the implementation of the PFM reform process. The PER meetings, which were so important for building trust between DPs and government on the one hand, and between the government and NSAs, have apparently lost steam and the dialogue on the reform programme has become more difficult to implement.

Indicator 5 looked in particular at donors' use of countries' PFM systems – measuring average use across budget execution systems, financial reporting systems and auditing systems (indicator 5a) – and use of national procurement systems (indicator 5b). The Baseline Survey for Tanzania reported that 66% of aid made use of PFM systems, averaged across the three components; for procurement, 61% of aid made use of country systems. However, there was reversal of trends in terms of use of national budget procedures (moving from 76% to 69%). The ODA that uses the national budget procedures is defined as the ODA that is captured in the national budget and the Exchequer System (including those disbursed through the Exchequer and those captured ex post in the Exchequer system through the use of dummy vouchers (also called as D-fund). There was little improvement in terms of disbursement through the Exchequer System (moving from 58% in the Baseline Survey to 60% in the 2008 Survey), and less direct disbursement use the D-fund procedures. Only about 20% of actual direct disbursement was captured through the use of dummy voucher by MDAs following proper D-fund procedures.

Challenges, however, remain in accounting and financial reporting, in particular at the local government level. PFM committees have been established at the ministerial and local levels to strengthen their participation in PFM reforms. Designated officers in ministries and local authorities will work together with national level counterparts to formulate capacity building interventions and provide inputs for other deliverables of the reform programme.

A major factor inhibiting faster increase in utilization of PFM is skepticism about its efficiency and effectiveness, a view that was put forward by the World bank's review which painted a rather negative picture of performance of the PFMRP. However, a recent independent external review by Robert Hawkins and Innocent Makundi (December 2009) has revealed that the picture is more mixed. In fact one factor which makes assessment difficult is the absence of benchmarks. The review found that there were a number of reforms in PFM recently implemented, which should contribute to measurable improvements but the PFMRP does not have benchmark measurements or mid-term targets against which progress can be measured. The review pointed out that when the latest phase of the PFMRP was launched no benchmarks were taken against which to measure progress. PEFA data could not substitute for this shortcoming as it was not appropriate for this purpose. Shortfalls in disbursement of funds complicated further the review of performance. The overall 2008/09 PFMRP budget was Tshs 40.1 billion but only Tshs 23.5 billion (59%) was released and Tshs 18.4 billion (46% of original budget) was spent.

Alignment of aid flows to the national priorities is to be indicated by increasing proportion of aid flows reported in national budgets (indicator 3). All donors eventually disclose financial flows but not always *ex-ante*; they disclose at different times and a significant number do that *ex-post* (after expenditure). This makes annual accounting by the government a bit more complicated.

The OECD survey of 2007 revealed that lack of records or even non-adherence to the Paris Declaration on procurement, use of country systems, support of common funding mechanisms, (GBS, Baskets) and harmonization and joint actions with other donors is not a fault limited to any particular group of donors or NGOs. Some traditional donors like AfDB, IFAD, GAVI Alliance, The Global Fund, USA, France, Italy and the UN as well as new donors were lagging behind in this area. The same donors were also likely to practice off-budget operations.

During the 2009 Annual GBS Review meeting, in the discussion of why there was under-spending in the development budget (by as much as 50%) in 2008, one of the main reasons advanced was the under-reporting caused by difficulties in capturing direct to project funds (e.g. the D-funds), provided by donors, by both the DAC and non-DAC members. It was reported that while all donor-funded infrastructure projects are recorded in different MDA budget books, about 84% of spending on these projects is not integrated in the formal budget spending system, the Integrated Financial Management System (IFMS). Some off-budget spending (under D-funds) is done using the dummy cheque system, once spending agencies confirm the receipt and the spending of such project funds. The main problem is that only a small proportion of D-funds are captured in the exchequer system despite requirement for quarterly reporting.

The conclusion of the 2009 Annual GBS Meeting was to recommend that approved aid project funds should be channeled through the exchequer system and GOT and DPs should vigorously pursue negotiations to increase the role of GBS as stipulated in the JAST. During the interviews for this IMG exercise, some DPs expressed pessimism in the expansion of the role of GBS and the reduction of off-budget spending to the planned levels in the next few years. In general, and especially with respect to the emerging donors, there are reasons for such lack of optimism:

- Continued demand pressures for energy and food worldwide will vindicate the new donors' trend of concentrating more investment projects in these sectors, which moves them further away from consideration of GBS;
- Likewise, there is huge requirement in Tanzania for rehabilitation and construction of new transport and communication infrastructure (roads, railways and ports); donor funds for these projects don't go through the GBS;
- A renewed zeal for dynamic relations with new donors (i.e. China, India, South Korea, Turkey, Egypt, Vietnam, etc) is most unlikely to attract support through GBS;

- Large non-GBS contributors (e.g. USA, China) actually might increase their assistance;
- Continuing to behave as usual: we checked the previous IMG reports and found that the issues of inadequate GOT assertiveness and the preference in practice for the project mode (often likely to be off-budget spending) have been recurring themes despite efforts made to improve the IFMS, management of the GBS, accountability processes, GOT-DP dialogue frameworks, adherence to the Paris Declaration stipulations, etc.

The above reasons may give solace for those donors, new and old, who have been reluctant to support GBS to now get more open in supporting the project modality. Yet there are several areas that can be strengthened that favour the movement toward GBS. One area that inspires optimism is improving data on ODA by continued consolidation and roll-out of the IFMS as well as development of the Aid Management Platform (AMP).

There are some development partners who do not use the government budgetary system, hence creating discrepancies between DPs disbursements to the Government and what is captured in the PFM system. Budgets may show aid as a *source* of budget finance in general, and/or track the *use* of aid to particular expenditure lines. As regards aid as a source of budget finance aid is captured in the MTEF process where it is reflected in plans of MDAs, it is reported in budget documents and it is approved by parliament. Tracking the use of aid i.e tracking its use in particular expenditure lines has been a major challenge.

ODA on Exchequer as disbursed into the main revenue funds of government and managed through the Exchequer was estimated at 90% in 2005 and it was envisaged that it would rise to 95% by 2010. Exact figures could not be obtained at this stage but in the opinion of expressed by government officials suggest that with the introduction of AMP, the target indicator of 95% has been achieved.

Current results also show that there are still discrepancies in recording donors' disbursements to the Government, between (i) what is budgeted by the Government,

(ii) what is captured in the exchequer system by the Government and (iii) what is actually disbursed by donors.

While all budget support funds are automatically captured in the budget the challenge is apparent in the case of basket funds and especially projects in the context of D-funds. In some cases, aid funds are provided directly to a particular MDA and managed through special accounts outside of the regular government system. This means that although aid funds are held by a government body, the normal government procedures are not followed. These funds may or may not appear on budget. In other cases, aid funds are spent by the donor agency itself to procure assets or services which are delivered to the Government in kind, but government does not handle the funds itself. This occurs particularly in cases of TA and equipment. These expenditures may or may not be reported in government budgets and accounts expenditures. GBS is automatically on-Exchequer, while Basket and Project Funding instrumentalities have taken both the on-exchequer and non-Exchequer formats; in the latter case not passing through the Parliament for formal approval of allocations¹⁵. . Analysis also showed that a significant share of project funding is also not on-Exchequer. When ODA funds are not on-Exchequer and not reflected in the government system they create reporting gaps in terms of expenditure. Yet non-Exchequer funds can still be using the PFM system for disbursement, procurement, accounting and/or auditing which is better than when donor funds are completely unreported in government records. There are hopeful signs that the initiative of the Aid Management Platform (AMP), now still under test piloting, has started to show improvement in the capture of data on D-funds

Then there are Theme Baskets such as for Malaria and HIV and AIDS. These funds do not cover all costs and for them to be delivered. The government has to cover overheads and any additional resources required, including staff. They can cause further strain on Government budgetary resources and their management.

¹⁵ For those wishing to get a better perspective of the differences among the budget terminologies of on-budget, off-budget, off-treasury exchequer, etc, one of the best sources is the Mokoro Ltd Article on “Putting Aid on Budget” a Study for CABRI and SPA of April 2008 also found on the internet by this name.

It was observed that the AMP facility contains little information on aid from new donors and aid passing through the CSOs, for which the efforts to gather this data

should be doubled¹⁶. In the Paris Declaration/Accra Agenda for Action (PD/AAA) framework, there is special emphasis given to inclusiveness of aid resources for development activities from new aid contributors and the aid going to CSOs, as the latter are important partners in the delivery of community services, and increasingly as contributors to policy making and monitors of public accountability. However, some CSOs have not been transparent on the resources they receive from the donors. In addition, the constitution of URT and the Public Finance Act have specific requirements to the effect that all aid must be reported and should go through the government budget system and approved by Parliament in a transparent manner. It is proposed that the AMP should be put in the context of the long term plan and should include both commitments and indicative figures even where they are not firmed up.

External Finance Department of MOF that will try to capture all ODA aid data at the country level. Its sister programme introduced as RIMKU will try to show all stakeholders who contribute to the funding of MKUKUTA. Hopefully, the latter will also, among others, show even what NSAs/CSOs contribute, given that their participation in policy processes is aimed at inclusiveness that encompasses financial matters as well. Another area that suits use of GBS is government transfers to LGAs. Given the strengthening role of LGAs in the poverty reduction front, they will require more funds to be spent in priority areas that the people in their communities identify and own. The GBS and a little bit basket funds are the only funding modalities that provide unallocated transfers of central government resources to allow the people the freedom to prioritize their needs.

One can appreciate the complexity of problems experienced by MOFEA in trying to compile data on off-budget spending by a variety of funding sources as outlined

¹⁶ The AMP has some information on financing of CSOs but it is reported as part of specific donor programme expenditures and excludes resources obtained directly by CSOs from overseas sources (from various public and private sources); the information also includes allocations made to local authorities and communities that are not CSOs strictly speaking

previously. In addition the data from MOFEA does not isolate new donors and vertical funds from the rest. Moreover, even the term “vertical funds” can be vague when applied to aid from the UN family institutions like UN Joint Fund, UNDP, World Food Programme ILO, UNICEF, UNHCR, UNFP or WHO, that mostly provide off-budget

funding. It is proper here nonetheless to commend the efforts made by MOFEA (External Finance Division) in compiling the above data that clearly distinguishes between on-budget and off-budget categories. Further distinction of different categories of donors and recipients should be made from this data platform: the type of data that is precisely needed should be expressly negotiated between MOFEA and the potential users of the generated information so that it is gathered and processed on continued basis.

Procurement: indicators 2b and 5b measured the degree to which existing procurement systems adhere to broadly accepted good practices. No assessment was done in 2005 but in 2007 Tanzania received a B rating indicating that its systems are largely developed towards achieving good practice. To further strengthen national procurement systems, the government has implemented a Procurement Capacity Building Strategy as well as a System of Checking and Monitoring to identify and solve problem areas. Harmonized donor assessment of the procurement system is undertaken through the Public Expenditure and Financial Accountability Review, giving another reason for these to continue to be made periodically.

The country procurement systems are less used by DPs when it comes to technical cooperation and grants because they feel that their countries’ accountability requirements for these are not yet met by Tanzania’s procurement systems. The increased use of country PFM (and procurement) systems by DPs is largely due to increased use of GBS and basket funds. Most project funds are being disbursed directly to specific projects accounts and therefore remain outside the national budget execution system i.e. Exchequer system.

Aid flows reported in the budget: Indicator 3 assessed the extent to which aid flows were aligned to national priorities. The overall PD 2006 survey results showed that 90% of aid flows were aligned to national priorities, but this performance fell to 84% in 2008. This puts Tanzania further away from achieving its 2010 target of 95%. However, the simple average donor ratio shows that aid predictability for each donor improved on average from 41% to 51% in 2007 and that the accuracy of budget reporting of disbursement across donors has actually improved from 66% in 2005 to 72% in 2007. This signals that while the discrepancy between the value of budget estimates and actual disbursements widened, the national budget estimated accurately a greater proportion of each donor's aid.

Another alignment measure is avoiding parallel implementing structures. The Paris Declaration calls for a substantial reduction in the number of project implementation units (PIUs) that are parallel in the sense that appointment decisions and accounting relationships involve the donor alone. Indicator 6 measured the number of PIUs that were parallel to country structures. The 2008 survey shows a significant reduction in the number of parallel PIUs in Tanzania from 56 in 2005 to 30 in 2007. This puts the 2010 target of reducing the number of PIUs to 19 within reach.

Capacity development: Indicators 4 and 6 address capacity development through coordinated DP support and by avoiding channeling support through parallel structures respectively. Capacity constraints significantly undermine the ability of countries to capture, coordinate and utilize aid flows more effectively. The PD Survey 2008 already indicated the need for better coordination and harmonization at sector/thematic areas in order to make progress in a number of Indicators, such as Aid on Budget, use of Programme-Based Approaches, joint missions and analytic work. Increased volume of aid and increased partners particularly vertical funds and global partners implies that coordinating capacity of the Government can be stretched further and could be undermining the Government's ability to implement the Paris agenda. Hence there is need to further build capacity of staff responsible for implementing and coordinating the budget, including external resources, accounting and reporting, must be sufficiently competent to comply with all the new obligations and live up to all expectations.

Capacity on the DP side is also essential. According to views from GOT, the most difficult problem here is the lack of continuity of staff responsible for upholding the dialogue and the conflicts between field and DPs home offices. Indicator 4 focused on the extent to which donor technical cooperation – an important input into capacity development – was moving towards a country-led model, measuring the degree of alignment of donor technical cooperation with the partner country’s capacity development objectives and strategies. According to this indicator Technical Assistance co-ordination in Tanzania improved in 2007 – 61% of technical assistance provided by donors was coordinated, compared with only 50% in 2005 – and exceeds the 2010 target of 50%. Some of this improvement may reflect the 2008 survey’s revised definition of coordinated technical cooperation, as some donors may count all technical assistance in agreements with the government as “coordinated” for the purposes of the survey. Even so the positive change can also be attributed to the fact that capacity building is one of the key areas addressed in the implementation of JAST.

The government has been implementing a range of cross-cutting coordinated capacity development programmes, such as the Public Sector Reform Programme and the National Anti-Corruption Strategy and Action Plan. In addition, there are coordinated capacity development initiatives to strengthen the public expenditure review process, the poverty monitoring system, and the business environment, as well as various sector programmes in health, education, water, agriculture, HIV/AIDS and forestry.

Predictability of aid: If aid is provided in a predictable manner, then recipient countries are better able to plan and make effective use of aid. The Paris Declaration calls on donors to provide reliable indicative commitments of aid over a multi-year framework and disburse aid in a timely and predictable fashion according to agreed schedules. Hence indicator 7 assessed the in-year predictability of aid, measuring the proportion of planned disbursements (as reported by donors) recorded by government in the national accounting system as having been disbursed.

At the aggregate level, the Results of the PD Survey 2008 indicated underperformance, moving from 70% in the PD Baseline Survey to 60% in the PD Survey 2008. This

underperformance is mainly due to the problem of direct disbursement not fully captured in the Government system through the use of dummy voucher, because the dummy voucher Indicator compares the scheduled disbursement and the actual disbursement accounted in the Government system.

The big problem, however, is that external resources are not likely to be committed within the Medium Term Expenditure Framework (MTEF), as required by the Paris declaration, for two main reasons. First, most DP parliaments approve budgets every year and thus no medium to long-term commitment are strictly made in that sense. Second, experience has shown that there are huge variances in the disbursement of development budget by DPs. In 2008/2009 for example, most DPs began disbursing funds in December and some delayed up to almost at the end of that financial year. While all the committed funds were eventually disbursed, the timing was of the essence. External financial resources are quite unpredictable, hence affecting the implementation of MKUKUTA and MKUZA. Closing this predictability gap will require donors and government to work increasingly together on various fronts at the same time.

Untying aid: Indicator 8, the last one for alignment, looked at untying aid. According to OECD data covering 94 percent of aid to Tanzania, 99 percent of aid was untied in 2007. Tanzania has made good progress on this indicator, exceeding the baseline amount of 95 percent. This is a result of increasing ODA through GBS and Basket funds as well as positive assessment by many donors of the Tanzania procurement system now being supervised by the Public Procurement Regulatory Authority (PPRA)

(iii) Harmonization

Aid practice disharmony imposes transaction costs to recipient countries. In Tanzania the JAST has encouraged donors to coordinate their activities more closely and, thus, make good progress towards increased harmonization. If donors use common arrangements for the management and delivery of their aid, this can enhance aid effectiveness. Harmonization in Tanzania is one of the areas where the best achievements have been reached in relation to both the Paris Agenda and the JAST. Indicators 9 and 10 assessed various elements of harmonization.

Indicator 9 of the Paris Declaration took the proportion of aid delivered through programme-based approaches (PBAs) as a proxy for use of common arrangements. It was found that increasing use has been made of PBAs in Tanzania in particular through GBS and basket funding modalities, which has allowed for greater alignment of donor support to national priorities and systems and increased harmonization of donor procedures. The proportion of aid using PBAs and thus common procedures rose from 55 percent in 2005 to 61 percent in 2007- slightly below the 2010 target of 66 percent.

The above notwithstanding, challenges remain in channeling more external resources to PBAs. These include capacity constraints of government agencies and financial management systems as well as donors' domestic legislative constraints that limit the extent to which they can engage in PBAs.

The Donors that are part of the DPG are today each operating in fewer sectors and prepare themselves jointly before any meeting with the government. The donor meetings seem also to take place and work rather well. Taking a long-term view on the development so far on harmonization the achievements seems to be even greater.

Indicator 10 assessed progress made in conducting joint missions and sharing analysis. One of the most frequent complaints made by partner country authorities is that too much time is spent with donor officials and responding to donor needs. The Paris Declaration recognizes that donors have a responsibility in ensuring that the missions and analytic work they commission are undertaken, as much as possible, jointly.

The indicator counted the proportion of missions to Tanzania that were undertaken jointly by more than one donor, and the share of country-analysis exercises that were undertaken on a joint or coordinated basis. In 2006 only 17% of donor missions were conducted jointly. The 2008 survey shows some progress on Indicator 10a with 24% donor missions conducted jointly in Tanzania in 2007, but is still far below the 2010

target of 40%. The large variation between donor responses in the survey raises concerns that donors may have interpreted the definition of missions differently, despite the 2008 survey's enhanced guidance.

Nevertheless, improved coordination of donor missions has been facilitated by various factors. The formalization of the Development Partners Group (DPG) in 2004 has enabled greater coordination and coherence among donors. Increased use of budget support, basket funds and sector-wide approaches has provided further opportunities for joint reviews and missions. Tanzania has substantially improved on the extent to which pieces of analytic work are coordinated, increasing from 38% in 2006 to 86% in 2007, exceeding the 2010 target of 66%.

The PD survey further observed that in the context of the JAST, Government leadership and engagement on Division of Labour is essential. Effective and functional division of labour is key in making further progress in aid harmonization and effectiveness at sector level and reducing transaction costs further. Integrating emerging donors and vertical funds will also be a challenge in ensuring that efficiency and effectiveness achieved through the division of labour are sustained and safeguarded. In addition, coordination among donors should continue to be enhanced through a more rationalized division of labour in their sector and thematic area engagement with delegated partnerships, through increased joint financing arrangements and through greater reliance in dialogue on national policy and consultative processes. Subsequent to the PD survey, progress has been made in the area of the division of labour; an agreed division of labour was finalized last year.

(iv) Managing for Results

Commitment has been made to managing resources and implementing aid in a way that it focuses on desired results and making better use of information to improve decision-making. The PD recommends that donors work alongside partner countries in the management of resources on the basis of desired results, and in the use information effectively to improve decision-making. This is particularly important for organizing monitoring.

It is in this context that one component of managing for results is the establishment by government of a results-based monitoring and evaluation (M&E) system that is of high quality, accessible by stakeholders and coordinated at country-level. In 2006, the government approved the NSGRP Monitoring System (RIMKU), which aimed to provide a transparent performance assessment framework for the NSGRP. Explicit performance reporting requirements have been developed and were incorporated into the 2007/08 Plan and Budget Guidelines.

Progress has been made in the use of common reviews frameworks such as the Performance Assistance Framework (PAF), which draws indicators from the MKUKUTA, PER and other national processes. The assessment of the 2009 PAF matrix reveals overall performance has been mixed and core reforms remain a challenge. Stronger qualitative dialogue at sector level is required to speed up the pace of implementation of agreed reforms, to increase PAF implementation and to reduce the incidence of split decisions. Efforts should be made to minimize areas of disagreement when it comes to the assessment of progress through ensuring simple and clear indicators of what is to be attained and regular high level dialogue on achievements and challenges ahead. It is equally important that both sides use the agreed PAF and avoid use of bilateral MOUs to assess overall performance of GBS. This requires a more strategic PAF with fewer issues to monitor progress against; there is also need to focus more on concrete progress and not just on processes, as is the case now. Policy dialogue has made progress especially in terms of architecture as discussed further below.

Indicator 11 focused on one component of managing for results, namely, the M&E cited above. Tanzania maintained the same B rating in the World Bank's 2007 Aid Effectiveness Review as in the previous 2005 Comprehensive Development Framework assessment. This means that it has already met the target of having largely developed good practice in this area. The quality and availability of poverty-related data is increasing, but needs to be further strengthened.

Concerns that need to be addressed include:

- The rapid proliferation of project aid modalities has increased the number of new processes linked to the monitoring of the programmes, which are not sufficiently harmonised between themselves nor aligned in the budget and financial management systems.
- There are also problems with interpretation of the quality of some monitoring indicators, particularly in the case of the PAF. Even the number of indicators and milestones are debatable within the DPG and between the DPG and the government, leading to mistrust between DPs and the government. These unsettled issues contribute to unpredictable aid flow.
- It is desirable to link the aid effectiveness agenda more effectively with development results and impacts. However, there are problems with the interpretation of results. A good example is the interpretation of the 2007 HBS poverty status. In assessing the effectiveness of ODA, they (DPs) gave more weight to income poverty, instead of looking at the whole set of MDGs indicators. However, there should have been more open and frank discussion in the dialogue between GOT and DPs on the interpretation of the HBS results.

(v) Mutual and Domestic Accountability

The Paris Declaration calls for donors and partner countries to be accountable to each other for the use of development resources, and in a way that tends to strengthen public support for national policies and development assistance. This in turn requires governments to take steps to improve country accountability systems and donors to help by being transparent about their own contributions. JAST clarifies roles, rights and responsibilities of Government, Development Partners and Non-State Actors, thereby creating conditions for their realisation. Emphasis is to shift accountability to DPs by government to citizens (domestic stakeholders).

Tanzania has a well-developed system of mutual accountability, including the one based on the work of the Independent Monitoring Group (IMG). The IMG, made up of independent local and international consultants and formally established in 2000, conducts biennial reviews of donor and government progress against their various commitments.

Indicator 12 measured one important aspect of mutual accountability: whether country-level mutual assessments of progress in implementing agreed commitments took place. The concern seems to be that donors can withhold their funding if they are not happy with government progress and the government does not have any recourse when this happens. In this regard, it will be important to further understand the relationship between the field donors and their headquarters and how this impacts on aid management principles in Tanzania.

There is a feeling on the part of the government that at present accountability requirements are often applied more comprehensively on the government than on donors. In this regard, the mutual accountability survey by the UN has shown that mutual accountability in Tanzania is not effective in terms of outcomes and Tanzania does not hold DPs to account. The total picture could be given in the Development Cooperation report. Aid is more effective when the government exercises strong and effective leadership over the development policies and strategies while the donors fulfill their obligations without undue hesitations and new demands.

It is recommended that:

- *Preparations for taking ownership and leadership forward should be accompanied by capacity building*
- *Allocation of aid flows should adhere more closely to the priorities in MKUKUITA and MKUZA. The priorities should be narrowed down to few strategically important priorities which should form the basis for PAF. too broad*
- *The reporting system for MKUKUITA and MKUZA should continue to consolidate the good practice of preparing one report for all constituencies.*

- *Targets and performance indicators should be established through dialogue and closer scrutiny of the realism of these targets and on the commitment to achieving the agreed*

targets should be given high priority. In particular, closer scrutiny over PAF processes should be made with a view to developing clear criteria of performance and discusses the targets with greater transparency through open and frank discussion.

- *Negotiation of bilateral and multilateral agreements should be harmonized with the principles agreed in the Paris Declaration and JAST. The national development framework should be the main reference for setting targets and conditionalities.*
- *Greater use should be made of the provision that if differences arise between the signatories (Government and GBS Partners) regarding the interpretation, application or performance of the agreement reached between government and DPs, they will consult with each other in order to reach an amicable solution.*
- *Development cooperation should be sufficiently discussed in terms of the big picture of the development framework and progress made in meeting the development agenda with clearly stated development results which should form the basis of PAF targets.*
- *GOT and DPs should agree on a few critical indicators which are implementable given the time frame and the implementation capacity.*
- *There should be close collaboration between MOFEA and the Planning Commission with the lead taken by Planning Commission and MOFEA supported by a team of senior officials assisted by experts so that the level of preparations and the profile of the policy dialogue can be raised to new levels consistent with increasing demands for development results globally.*
- *Progress towards should be monitored through measurable improvements with clear benchmark measurements or mid-term targets against which progress can be measured. .*
- *approved aid project funds should be channeled through the exchequer system according to the constitution of the URT (sections 135-138).*
- *Negotiations should be pursued rigorously to increase the role of GBS as stipulated in the JAST and to eliminate off-budget spending.*
- *Formulate a clear strategy of making DPs increasingly use country systems where these are of sufficient quality and to work jointly to strengthen them where they are perceived not to be of sufficient quality. Objective criteria of the quality of country systems should established to guide this process.*

- *Categorization of the data should be adapted to the realities of existence of vertical funds and new donors so different categories of sources can be distinguished.*
- *Capacity development for aid coordination should be given priority both in terms of recruitment, training and retention and utilization to ensure their competence as well as staff responsible for implementing and coordinating the budget, including external resources, accounting and reporting*
- *Aid should be provided in a predictable manner to enable GOT to be better able to plan and make effective use of aid. The practice of providing reliable indicative commitments of aid over a multi-year framework should be consolidated followed by timely disbursement aid in a timely according to agreed schedules.*
- *Coordination among donors should continue to be enhanced through a more rationalized division of labour in their sector and thematic area engagement with delegated partnerships, through increased joint financing arrangements and through greater reliance in dialogue on national policy and consultative processes.*
- *Mutual accountability needs to be articulated for both partners for purposes of achieving development results.*
-

3.2.2 Assessment of the dialogue: GoT, DPs and non-state actors (NSAs)

(i) Role of Dialogue

High quality and regular dialogue between the Government, Development Partners (DPs) and domestic stakeholders based on already existing national processes is crucial for the successful implementation of the JAST and the MKUKUTA and MKUZA. Such processes include MKUKUTA and MKUZA, GBS, PER, national budget, sector processes and reform programmes. In this regard, the Government, Development Partners and non-state actors are supposed to use dialogue in order to:

- Strengthen their partnership around common goals;
- Improve public policy choices and the effectiveness of Government planning, budgeting and public services delivery;
- Strengthen national ownership and the Government's role as leader in the development process;
- Improve information sharing within and outside their agencies and thus facilitate the adoption of widely-derived but consolidated views; and

- Facilitate Government accountability to the citizens of Tanzania and mutual accountability of the Government and Development Partners.

In view of the above objectives, dialogue between the Government, Development Partners and Non-State Actors is to be guided by the following *principles*:

- Dialogue takes place under Government leadership at the respective levels, i.e. national, sector and/or local government, through effective coordination and organisation, providing predictability and participation by appropriate representatives;
- Dialogue involves all relevant stakeholders in order to facilitate national ownership and clear understanding by stakeholders of the objectives of each dialogue forum and their roles and responsibilities therein;
- All stakeholders participate in dialogue with the view to facilitate domestic accountability;
- Dialogue is open and frank and based on mutual trust and respect in order to allow for a fruitful exchange of views and, where necessary, for formulating consensus. Every participant has an equal opportunity to share their views;
- Dialogue seeks to minimise transaction costs through simplification and rationalisation around the national calendar of policy and consultative processes;
- Issues discussed in dialogue are subject to thorough scrutiny within a particular forum and subsequently conclusions are vetted by superior authorities, a procedure that should be accepted as normal if it is handled responsibly when it is done in order to enhance accountability and the quality of final agreements;
- Information is shared among stakeholders in a transparent, timely, clear and accessible manner including (i) advance communication and dissemination of

- material in preparation of dialogue forum, and (ii) reporting on the previously convened forum process and conclusions and
- Dialogue has established follow-up mechanisms for the outcomes of dialogue and dialogue outputs to feed into policy making.

(ii) Dialogue Structure 2005-2009

In the dialogue structure during 2005-2009 sector and national dialogue took place around different processes (GBS, PER, MTEF, MKUKUTA clusters, and JAST, etc) often with overlapping agendas, schedules and memberships without clear selection criteria as well as unclear inter-linkages among the different dialogue processes. As a result, both the government and the donors have experienced high transaction costs, leave alone insufficient quality and ineffective dialogue arrangements and their expected outputs. In fact, the dialogue structure turned to be very complex and led to a meeting culture at the risk of making process appear as if it was more important than outcome.

Findings from interviews have revealed that most stakeholders do not have the full picture of how the dialogue was supposed to work. The DPG meetings seemed to function; however the meetings were too many and more often they concentrated more on processes than on substance. Joint policy meetings between the top level Government officials and top level DPG are very rare and do not take place on planned calendar. In fact, the PER Main has not been functioning. Yet this is a very important component of the dialogue structure. Others like the cluster structures have increasingly been questioned. In particular, the DPs long for the reactivation of the Development Cooperation Forum (DCF) headed by the Chief Secretary. The feeling of the IMG team is that the merit of this level meeting should be considered within the context of expected impact especially if the ascending order of taking up issues of dialogue disagreements has been clarified and without diluting the power and position of MOFEA. Perhaps instead of the Chief Secretary, the DCF could be convened by the Minister for Finance. Such a shift would also address the concern

that politicians are not adequately involved in the dialogue. The reasons for these shortfalls are manifold and stem from both sides. On the part of the Government, the most commonly cited reason by donors is inadequate capacity to take the lead in terms of ownership. DPs also find that the level of representation of Government in joint meetings is often not strong enough to handle the issues to be discussed. A concern has been raised by the donors about the ability of the government to lead and harmonize the donors. The government side while accepting some of the above criticisms particularly on representation by the central ministries due to having to attend too many meetings (i.e. process overload), points out instances when the DPs had to ask the government to help in harmonizing the arrangement of the DPs' division of labour and occasional disagreements among donors on who should co-chair specific cluster processes.

At the same time there is serious criticism of the lack of meetings particularly on the overarching areas such as the national development framework, budget quality, poverty monitoring and analysis, improvement of statistics, service delivery in local communities, PFM reforms, and on policy related issues etc. No Development Cooperation Report has been produced for the past few years, a report which was considered as good for summarizing the efforts of ensuing cooperation among all the donors and the government. The JAST Annual Report has not been produced in the last couple of years either. The view of the current IMG team is that the JAST Annual Report produced by the Ministry of Finance should suffice, provided it incorporates information on all development cooperation aspects, and is not limited to the JAST framework only. In addition, periodically and especially after the biennial IMG exercise, the Annual Poverty and Human Development Report could carry a thematic topic on the status of development cooperation as integral in supporting the efforts of poverty reduction under the MKUKUTA and MKUZA frameworks.

Another dialogue aspect mentioned is the place of parliament in the dialogue process. In a parliamentary democracy, there is a dilemma as to when during the

dialogue process for aid and overall management should the parliament get engaged since it has a unique occasion to intervene during the formal sessions of parliament or its statutory committees. The practice in Tanzania has been to invite individual MPs as other stakeholders to participate on personal basis. During the AAA in Accra in 2008, parliamentarians vehemently rejected being grouped in “other stakeholders”, saying they are at the very centre of the national development agenda. Considering that concern has been expressed of limited involvement of politicians in the dialogue structure, it is proposed that the position of parliament be thoroughly considered and clarified in MKUKUTA-II as well as in JAST-II.

Transaction costs: All actors agree that transaction costs are high and must be lowered. This is more so on the government side, particularly for MOFEA. Apparently there is no study on the comparison of transaction cost over time and in particular the period before the TAS and the introduction of GBS. Although the transaction cost seems to be higher than had been expected after all these years of harmonization and alignment and the increased share of programme aid, it is IMG’s strong belief that transaction costs must have gone down over the period. However at the same time the absolute amount of aid has increased substantially, new actors have entered the scene and lately the number of projects has increased again as part of total aid which jointly tend to reverse the declining trend in transaction costs. The investigation particularly on the dialogue structure proposed above should help to come to grips also with the transaction costs.

Concerning Civil Society

The PD and more forcefully the AAA both lay special emphasis on involvement of CSOs in government-led-multi-stakeholder processes for development effectiveness. This pertains to: (i) enlarging space for CSOs in policy formulation processes, (ii) improving coordination with CSOs in government planned and funded programmes, (iii) enhancing CSO accountability for results for their own resources, and (iv) improving information accessibility by CSOs and on CSO activities.

In Tanzania the quality of exchanges between GOT and CSOs has been improving steadily, though such conclusion may not be supported unanimously by all segments of CSOs. Many CSOs admit that government has made effort in widening the participative process in generating policies so as to make them more effective. They credit government MDAs that have opened information websites. Reciprocally, in government circles the belief that CSOs are making a useful contribution to policy process is consolidating. Candidness by NGOs in expressing

their true feelings is no longer taken as hostility to government stance. As for the donors, they believe that their interactions with CSOs are satisfactory.

Yet some NGOs still feel that sharing information by government is not systematic and is not practiced in every policy event. These feel participation is often a one-off event which often may have to be negotiated to afford being invited or the NGO presence is perceived as mere 'window dressing' to meet donor conditionality or to make them happy. Some NGOs feel that they are still sidelined at best (e.g. budget matters) or seen as intruders at worst (e.g. human rights, draft bills being sent to the Parliament). They argue that they do not see their impact especially when their participation is limited to brainstorming policy sessions. They believe they have more leverage and incentive to participate at sector-level fora and in smaller working committees where their expertise and experience can be demonstrated (such as in education or health) and thus be valued distinctively.

The IMG's strong opinion is that the involvement of CSOs has reasonably improved as indicated before, even if it is occasionally being taken as perfunctory on the part of government and not always appearing to be deeply desired by government as a source of rich information, evidence or views. Many reasons were advanced by CSOs and other respondents during the interviews for this Report, regarding the root cause of lingering weaknesses; for instance:

- CSO capacity being limited in the context of numerous meetings and workshops as well as other processes taking place around the country that are convened or

initiated by government, donors and the CSOs themselves. Some CSOs are outstanding in their clout of grasp of issues and strength in debates (e.g. Hakielimu, Policy Forum, TGNP, TWAWEZA, ForDia, REPOA, etc.); but for some of them their mandate (representativeness) is occasionally questioned when the same organizations or even individuals are constantly invited (or co-opted) at different fora.

- Inadequate or even absence of funding for participation by CSOs: most specific projects or specified activities facilitate participation of third party beneficiaries only. Often they do not allow for general administrative operational expenses that can accommodate the costs for the CSOs to participate in policy oriented meetings or follow up on policy issues.

(iii) Shortfalls of the Current Dialogue Structure

Reasons for perceived shortfalls in the dialogue structure and quality may be summarized as follows:

- Compared to the DP offices, Government aid management capacity is often overstretched especially at the top and senior levels in the central ministries, which are charged to assume leadership and thus facilitate ownership. This observation is associated with the DPs concern over the weakness of ability (or willingness) of the government to lead and harmonise donors where this is required;
- Attendance at process forums by government officials is not always at sufficiently high level and is not always consistent, with frequent replacements of representatives who may not be fully informed of preceding developments on the issues. The implication is that when weighty decisions have to be made, lack of seniors at the specific meeting, e.g. at Cluster Working Group, can be seriously constraining;
- The quality of DPs staff in the country has over the years somehow changed, and not for the better. One senior interviewee in the MDA lamented that the “The tendency in their attitude (the DP staff) is now more to find fault or trying to show power instead of attempting to strike some compromises or

picking up best practices to encourage; this problem is partly aggravated by high turnover of these staff and the consequent limitations in institutional memory. Fewer DPs staff tend to see the large picture on issues and impacts of their support to the country; in assessing the effectiveness of ODA, they unduly lean on income poverty, instead of looking at the whole set of MDGs indicators.”

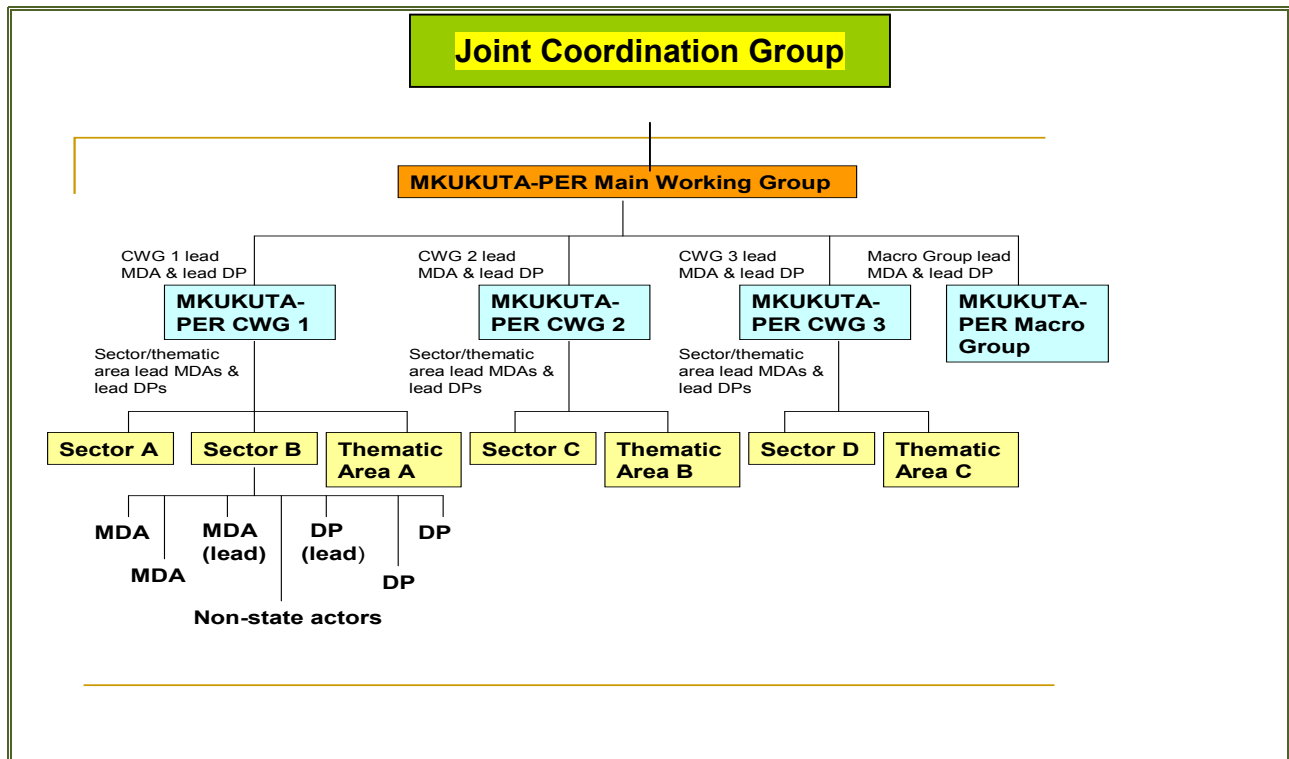
- One of the needed actions in the follow-up process after HLF-3 is to immediately embark on broadening the understanding of the AAA¹⁷ (and even the Paris Declaration itself) within Tanzania. However, it seems that after such international undertakings, not many people within the government administration are familiar with them, let alone have an in-depth understanding of their stipulations. There is no clear evidence of systematic follow up of international aid dialogue and commitments within government, to link them to national processes or specific country aid negotiation arrangements.
- Disagreements in the assessment of performance under PAF, both within government realm and among donors, and between the two parties, sometimes become sharp and can counteract the effects of good progress made in the dialogue. There is thus need to reduce the areas of disagreement by developing commonly agreed indicators for assessment. But it is necessary to avoid seeing disagreements *per se* as always evil or absolutely irreconcilable. When such disagreements occur, they should be articulated jointly and steps for transparently seeking higher authorities intervention agreed upon, rather than appealing over the heads of the relevant participants without their knowledge or “pulling out” of the dialogue silently.
- It is important to recognize that dialogue is needed for wider issues and must not be restricted to the PAF; other policy and cooperation matters are pertinent.

(iv) New Dialogue Structure

As a result of the above shortcomings, a new dialogue structure (Figure-2) has recently been introduced.

¹⁷ HLF-3 is the High Level Forum of 2008 that resulted in AAA or Accra Aid Effectiveness Agenda

Figure 4: New dialogue structure



It contains the following main features:

- (i) It tries to integrate the dialogue structure processes such as MKUKUTA, Policy week, PER, JAST and GBS that deal with policy and budgetary/expenditure issues, with the aim of reducing overlaps and transaction costs;
- (ii) It maintains four levels of dialogue, namely: (a) Sectors/thematic areas where MDAs (and active DPs) are direct members; with dialogue expanded to include also NSAs when it is warranted; (b) Four Cluster Working Groups with 3 of them corresponding to the three MKUKUTA clusters: Cluster -1 for Growth and Income Poverty Reduction; Cluster-2 Improvement of Quality of Life and Social Well-Being; and Cluster-3 Governance and Accountability, where sectors/thematic areas are represented, as well as Cluster-4 a MKUKUTA-PER Macro Group;

- (iii) A Joint Government–DPs Coordination Group (JCG) is the highest level coordination structure comprising Permanent Secretaries and Heads of Development Cooperation, and serving as a forum for dialogue in the coordination of development assistance, the harmonisation and alignment of Development Partners’ programmes, projects, and GBS in support of the implementation of MKUKUTA and MKUZA. In this respect, some respondents feel the JCG membership is rather huge and unwieldy and thus may not provide room for keen discussions on issues - for which we feel sympathy with, but it is better to let the new structure work for a while, whilst thinking about fine-tuning measures to enhance its impact and
- (iv) Sectors/thematic areas and Cluster Working Groups (CWGs) have a lead and deputy lead MDA plus a lead DP to represent other members in dialogue at the next higher level. Examples for a sector are like education, water and agriculture, while in thematic areas there are governance, public financial management, etc. The quality of sector dialogue differs with education, health and agriculture having been outstanding due to the influence of leadership provided by the lead ministry person capacities as well as membership.
- (v) A key working, the PFMRP Working Group has not functioned effectively. According to an independent external review (December 2009) the performance of the Working Group has shifted from one which had been providing more facilitative guidance and support to the reform programme, particular from the DPs to one which was characterised by detailed management intervention and review leading to confrontation and fragmentation. The review was of the view that the PFMRP Working Group had somehow lost its way and there was a need to return to the more facilitative relationship between the DPs and the GoT. The review pointed out weaknesses on both sides, GOT and DPs. On the GoOT side, there was need to recognise and respond to its obligations to provide information as required. On the DPs side there was need to recognise that technical skills and capacity is more readily available from their side and the DPs

need to be more coordinated, proactive and facilitative in their support to the PFMRP management through the Working Group.

Contrary to the long period when the DPs had considerable influence on GBS (and PAF) implementation issues there is now strong hope that the streamlined new structure will promote more balanced dialogue and even enliven the dialogue in other fora (beyond the GBS and its PAF). Nevertheless, certain extra steps should be taken during MKUKUTA-II to address the following:

- The need to incorporate more firmly the element of regional and district/LGA involvement into the new dialogue process platform. The ambivalence of some DPs to the centrality of MKUKUTA, which stems from their early “hands off “approach to the birth of MKUKUTA-I, needs to be addressed in the forthcoming MKUKUTA.
- The assembly of many ideas in MKUKUTA-I that are neither sequenced nor prioritized in a strategic fashion for investment did not fit well for specific outcome target monitoring or evaluation.
- Data management and data communication should be improved. Information on ODA in Tanzania is captured on the donor (DPG) website, as well as the Government of Tanzania (e.g. Ministry of Finance PFMS and AMP).
- Communication with DP Head Offices: It is believed that the majority of DPs, if not all, have developed Aid Management Policies and even Country-Specific Aid Strategies at Head Quarter level, and execution of such policies is rolled out to the field level (but may not be wholly shared with the GOT or other domestic stakeholders). The whole problem could be addressed in JAST-II (linked to MKUKUTA-II).

- The idea in some DP quarters that government coordination of external aid and its communication with donors are not well streamlined is not justified as the Partnership Framework Memorandum makes it clear and the government has reiterated that it is MOFEA that has the final responsibility to commit the government in ODA financing.

(vi) Requirements for a Well Functioning Dialogue Structure

After our discussions with various parties, it has become clear that the newly adapted dialogue structure may not need immediate revisiting *per se* but should be allowed to be tested for its functionality. But in the next few years, its fine-tuning should consider the following ideas

- Further integrating different processes which take place at the same time and overlap with each other. The new dialogue structure presented above is a good first step of implementing such integration;
- The Government representatives have to exercise leadership in all meetings between the government and DPs. This requires that the Government representatives are of the right competence, authoritative and decision-making level. There is need to restore the dialogue at least to the level it was 5-6 years ago. The way out is not for the GOT to decline to engage but to engage actively and tactfully. For instance, more senior officials should be engaged and preparations for dialogue should be improved. This requires that GOT goes with a plan of how best to engage. On the DP side the quality of staff and institutional memory need to be improved so the good experiences of the past are not forgotten.
- Some key elements to starting the dialogue process all over in respect of partnership include engaging more senior officials, making preparations in a more strategic manner, working on succession plans on both sides, institutionalizing the process in such a way that individuals can be replaced

without damaging the dialogue. Agree to get EPA and Richmond out of the way for healthy dialogue to be initiated and pave the way to the development of such a healthy dialogue.

- Some DPs want to know everything. They should respect the GOT for holding certain state secrets like any government in their own countries does. The government should come out clearly on the boundaries of issues to be subjected to dialogue.
- Findings ways to improve discussions at cluster meetings, upon which contrary to some respondents' views, the current IMG team believes the cluster framework is still an important category of the dialogue process particularly suitable for harmonising issues that cut across sector-specific concerns; but improvements have to be made so that they become more constructive and substantive, as is the case with sector and thematic dialogue meetings. The sector and cluster forums will be more efficient if they operate under a MKUKUTA that hinges on a development and poverty reduction agenda that articulates clear strategies for resources management and policy direction. In this context, a clear role of the Planning Commission vis-à-vis MOFEA will be helpful .
- Ensuring achievement of mutual accountability and management of results emanating from GBS bearing in mind the importance this aid modality has in the implementation of the over-all implementation of Government affairs.
- The difficulties that have been experienced in the dialogue have made both parties feel like appealing to higher levels. The DPs have been reported to appealing to the level of Permanent Secretaries and Ministers and the GOT has been wishing to appeal to DP capitals. All these efforts are symptomatic of the failure of dialogue. They should be addressed by reviving and improving dialogue.

- ✓ Linking non-performance to the release of funds can work where criteria for performance are worked out in detail. However, even then there are circumstances where non-performance does not necessarily mean neglect or lack of commitment. There may be complications arising from demands of domestic constituencies forcing on reforms to be stalled. In such cases what is needed is a political explanation why reforms have not been implemented at the expected speed. In such circumstances political engagement could be the appropriate route to take. One way of handling sensitivities which have been emerging is to engage more effectively the politicians in the dialogue. The Minister of Finance should feature more prominently in the dialogue structure. In fact, an option which should be considered seriously is that of having the Minister of Finance chair the DCF instead of the Chief Secretary. This would enable the DCF to address difficult and sensitive issues in the relationship. It should also be recognized that with 40 DPs in DCF the dialogue cannot avoid to be very general. It can only work if real deep and detailed dialogue takes place at the technical level at the sector or cluster level. This is where real problems should be solved.

- ✓ In order to get a better feel of the sensitivities in the DP capitals and their constituencies the GOT should engage more effectively the Tanzania Embassies abroad in holding dialogue with the DP capitals in the same way that ambassadors of DPs in Tanzania take up issues with the GOT. Such a move would capitalize on the foreign policy economic diplomacy.

- ✓ Parliament needs to be more closely involved and in a more systematic manner in the dialogue on aid relationships with a view to enhancing oversight.

- ✓ The ultimate solution is for the GOT and DPs to enter into a more frank dialogue and discuss the problems more openly and agree on how best to do business together.

- Differences that have been arising in the dialogue could have been settled with the help of independent studies mutually agreed on and TORs endorsed by both sides. Some voices from the DPs side are demanding that a study be carried out to find out why GBS is not working as effectively as it should. Voices from GOT side have expressed concern that such a proposal should have been discussed and agreed upon in the dialogue. In a similar manner voices from GOT side expressed concern that the World Bank did a study of PFM RP without involving the GOT. These voices feel that the study was done in a rather clandestine manner but the results were used to do a lot of damage on the PFM RP and GOT. This brought conflict and ill feelings between some GOT officials and the respective official in the World Bank. PAF had indicated that CAG was supposed to undertake the study on IFMS and PFM RP but the World Bank went ahead and carried out the study without seeking agreement with GOT. The outcome of the study would have been more useful if it had been agreed upon by both parties. The way it was done gives the impression that the opportunity for dialogue was not effectively used.
- There is need to renew the trust which is currently at a very low ebb. Both sides need to act and both sides should show interest in going back to the negotiation table and show interest in getting things back on track and on the right footing. This time round the incentive to perform should replace stick by carrot and juniors by seniors in the dialogue. In the event that issues are difficult to agree the two parties may seek technical assistance to help them come up with facts and objective analysis which would help them to reach agreement.

It is recommended that:

- *The question of trust needs to be revisited with a view to taking a longer term perspective than the case has been in recent years. The bottom-line is to create a good and all inclusive partnership. A renewed dialogue based on a higher level of trust is a more lasting solution.*

- *The quality of preparations for dialogue should be raised in order to engage actively and tactfully. The officials engaged in the dialogues should be of the right competence, authority and decision-making level.*
- *DPs should engage more in bringing to bear good practices from elsewhere to enrich the policy dialogue.*
- *Agreement should be reached on boundaries of dialogue respecting the right of government to have state secrets which cannot be subjected to dialogue with DPs like any government does.*
- *the cluster framework is still an important category of the dialogue process particularly suitable for harmonising issues that cut across sector-specific concerns. However, improvements need to be made so that they become more constructive and substantive, as is the case with sector and thematic dialogue meetings.*
- *The roles of the Planning Commission and MOFEA should be articulated to ensure complementarity and synergy..*
- *Consistent with the evolving global concern over development results, the dialogue should formally shift from process to performance based on results and outcomes based on specific criteria.*
- *In order to get a better feel of the sensitivities in the DP capitals and their constituencies Tanzania embassies abroad should be engaged more effectively in sending feelers and engaging in dialogue with the DP capitals in the same way that ambassadors of DPs in Tanzania take up issues with the GOT.*
- *Politicians notably Members of Parliament and Ministers should be engaged more effectively in the dialogue. Parliament needs to be more closely involved and in a more systematic manner in the dialogue on aid relationships with a view to enhancing oversight. The relevant parliamentary Committee should be engaged more actively in this regard.*
- *In the dialogue between GOT and DPs, difficult areas which cannot be resolved through open and frank dialogue should be facilitated to make progress with the help of a jointly agreed (TOR and expert to do the study) independent and objective study.*

- *There is need to renew the trust which is currently at a very low ebb. Both sides need to act and both sides should show interest in going back to the negotiation table and show interest in getting things back on track and on the right footing. .*

3.2.3 Lessons from Selected Sectors/Areas

This section covers four sectors: Education, Health, Infrastructure (represented by transport) and Governance. The four sectors/have been selected to demonstrate developments in dialogue and aid effectiveness. Education has been selected because it is a sector where aid relationships started from a low level and have improved over time. The health sector was the first sector to develop a SWAp as a basis for dialogue. The aid relationships in that sector developed and reached a stage where it was facing the risk of strains and decline. The transport infrastructure sector is associated with large projects and its study could throw light on how large projects are likely to feature in the dialogue and in aid effectiveness. Governance is selected for its sensitivity and importance in influencing predictability of aid flows in recent years. Scrutiny of issues arising in these sectors could provide useful lessons for the way forward.

(i) Education

Since independence, Tanzania has put emphasis on education. Tanzania achieved dramatic increases in primary school enrollment during the first two decades of independence. Gross enrollment rose from less than 50 % in 1961 to about 95% in 1976. Towards the beginning of the 1980s this positive trend was distracted by Tanzania's economic problems. Lack of teaching materials and overcrowded classrooms together with low teacher salaries not being paid out at times had negative effect on the quality of education. Ten years later as structural adjustment programmes were being implemented, enrollments were below 80 percent and still falling. The reduction of public financing provoked an expansion of various fees and levies on parents affecting the number of children attending school. A positive change came when the Primary Education Development Programme (PEDP) of 2001 was implemented and primary school fees were removed. By 2003 enrollments were up to 91%. Although these numbers point in the right direction, the quality of the education was and is still far from good.

The situation of the sector at the time of the last IMG report in 2005

The IMG report of 2005 acknowledged that there had been dramatic improvements in the primary education sub-sector through the PEDP. This had been accompanied by significant increases in donor funding. The relationships between Government and DPs had however become rather poor. Acrimony, particularly over the release of funding by the pooled fund partners and reporting of it, had led to very unpredictable financial flows to district and school levels, with damaging effects on the quality of education. A review undertaken at the time supported the suggestion that the main problem lied in the capacity of the Ministry of Education to orient its main thrust and capacity towards policy and charting out a clear direction for the sector¹⁸. The review also pointed at the approach that had been adopted by donors in trying to fill this capacity gap. The donors resorted to micromanagement which was unsatisfactory as a substitute for capacity building.

Apart from policy capacity deficiency in the Ministry of Education, forces from the donor side had contributed to aggravate 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, had not been working towards coordination. For them, the best way to maintain their individual ‘leverage’ was through projects.

The experience in the education sector had shown that as the flow of resources under basket funding had been difficult with its challenging implications on resource flows, the administration in the sector had responded by expressing preference for GBS. The preference for GBS seemed to be induced by the difficulties the Ministry of Education 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.

Developments during 2005-2009

¹⁸ Joint Review of the Primary Education Development Plan (PEDP) - Final Report by consultants dated October 2004

In 2006, most of the DPs supporting PEDP moved from supporting primary education only, to supporting the whole education sector for which funding was provided in the form of General Budget Support (GBS). The dismantling of the Basket Fund and the further improvement of the Education Sector Development Programme (ESDP) are evidence of a shift to a truly sector-wide approach. An immediate effect of the shift in aid modality was seen an increase in non-earmarked aid and a resulting expansion of the national budget. Complemented by an increase of domestic resources (tax revenue). This has resulted in an increase of the total government budget from about 2,500 billion shillings in 2003/04 to about 6,066 Billion shilling in 2007/08. During the same period, the national budget allocated to the education sector increased from 12.6 percent to 18.3 percent total government budget. Already in 2006 signs were clear of an improvement in the leadership role of the Ministry of Education; dialogue became more general and sector-wide and concentrated on policy issues concerning the entire sector and the budget discussions more on allocation between sub-sectors rather than details of spending in each sub-sector. Over the years since 2006 the lead from the ministry has continued to improve and the cooperation climate has improved as a consequence. The dialogue is now an accepted phenomenon on both sides.

Outstanding challenges

In spite of the considerable progress and improvements made in the past few years, some challenges still remain as regards access and quality of education - and the aid to it as efficient as possible. A major problem that was discussed in detail in the IMG report of 2005 and still has not been properly adhered to is the question of improving the capacity within the Sector in general and the Ministry in particular, capacity for policy analysis and development management of the sector. Still much remains to be done here.

Another problem is the presence of many actors outside the cooperation. The number of major donors in the sector has decreased from 20 to 10 consistent with the principle of harmonization. These ten donors are participating in the joint coordination dialogue Six of them (Bilaterals: DFID, Canada and Sweden; Multilaterals: the World Bank, UNICEF, and UNESCO) are the active participants in the dialogue. Interestingly three bilateral donors all allocate their funds through the GBS and SBS while three major donors

participate in the cooperation but act bilaterally outside the joint cooperation and continue to use project modalities, This situation represents a challenge since the continued use of project modalities undermines the potential benefits that can be derived from budget support. Putting in place a new aid instrument has taken time and slowed down implementation of some activities during the transition period. The development of a sectoral approach and GBS has increased the time devoted for harmonizing among DPs and among MDAs and in between DPs and MDAs. This could be seen as an **increase in transaction costs**. However, most of the time devoted to meetings has had positive benefits (e.g. learning from working groups, understanding budgeting and planning issues, mitigating risks through fiduciary safeguards).

Recommendations

Continued focus should be placed on the Ministry of Education to demonstrate clear leadership in the sector. Immediate steps have now to 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. Efforts should be made to increase donor alignment and harmonization within the sector to avoid donor ‘projectization’ of parts of the sector and give space and facilitate the Ministry to increase capacity for developing core strategic issues and goals that are monitorable against agreed benchmarks. This refers in the first place to donors outside the present cooperation but also those more closely involved in the dialogue with the Ministry. Serious efforts should be made to convince some of the major donors in the sector who still do not take full part in the harmonization process to engage more in the common processes and dialogues and to respect joint agreements.

(ii) Health

The health sector is perhaps the most advanced in SWAp implementation. Despite a number of short falls in this system the health sector SWAPs has progressed well as shown below.

Progress in implementing SWAp

The Joint External Evaluation of the Health Sector (2007), MoHSW PER 2009 and the Joint Health Sector Review 2009 confirmed that significant progress has been made in the implementation of the overall health sector plan, including improvements to service provision in the districts. The reports also found that the Ministry of Health (MoH) has made considerable progress in implementing the Health Sector Reform in local government authorities; significant progress has been made in terms of improving planning for council health services.

Relating SWAps and Decentralization

There is good evidence to suggest that SWAps have facilitated the introduction of decentralization in Tanzania. The pooling of the majority of donor funds for the health (and education) sectors permits the GoT to transfer funds for a jointly agreed strategic plan and according to harmonized procedures to both, the respective sector ministry and to PO-RALG. However, with the receipt of conditional grants, district administrations are burdened with additional tasks and responsibilities, such as the reporting requirements for different sector grants, in addition to the requirements for separate programme and project reporting. This puts stress on already scarce local government resources.

The Sector funding and SWAps

The sector funding is guided by the MTEF. The MTEF is the main tool to manage the annual expenditures of the government. Donors made the formulation of a consistent sector MTEF a precondition for financing sector development programmes. In the preparation of the MTEF, the priority sectors are required to make sure that the process is consistent with the Government's long-term development objectives as laid down in the JAST and the MKUKUTA and MKUZA. Prioritizing and costing of projects and programmes within the sector ministries and departments is still weak and time consuming. But there is acknowledgment that the MTEF process has improved budget management by increasing allocations to priority sectors. The budget review indicates that the allocation of budget resources for health grew by 18% in 2007/08 and by 19% in 2008/09. Also, actual health expenditure grew by 41% in 2005/06, then by 20% in 2006/07 and by 12% in 2007/08. Overall budget performance for the health sector has been good, with little mismatch between approved estimates and actual expenditures.

Health-Sector spending

According to the Joint External Evaluation of the Health sector report for 2007, the overall performance of MoHSW budget by all departments was satisfactory and met the MKUKUTA and sector objectives. On average, only 77% and 52% of the estimates approved for recurrent and development expenditures respectively were actually utilized. A particular concern was raised on low levels of development performance (52%), which was partly explained by delays in implementation of development projects and stringent government procurement procedures. Since MKUKUTA objective are so broad such that any activity fits in, this limits thorough analysis on how the sector contributes to meeting the MKUKUTA goals and objectives.

Tying of Procurement is declining

A remarkable progress has been noted as much procurement-tying among bilateral donors has been declining over time. The sectoral pooling arrangements have the effect of reducing tying of procurement. For instance, Health Basket Fund partners have formed a joint procurement arrangement which is not tied to any single donor. Previously MOHSW provided a list of items needed and donors purchased and supplied the items, Currently the MOHS orders items from the MSD or advertises domestically (or international) for procurement of its technical equipments .

Outstanding challenges

- *Decentralization:* While the health sector reform is ahead of other sectors in implementing LGR, the process of devolution is not guided by sufficient communication between the MoHSW and PMO-RALG. Phasing of the reforms and closer collaboration between the two bodies was seen as essential to ensure better delivery of quality health care to communities by local authorities;
- *National and Regional Support Structures:* Regional support structures need to be enhanced to take over the planning support, supervision and monitoring functions in relation to district health services;

- *Implementation of activities and release of funds:* Late disbursement of basket funds, low absorption capacity by the Ministry, delay in tendering process, escalating cost for health services provision, different financial management procedures among donors and delays in processing and warranting of funds and payments contributed to the low level of implementation of activities (MoHSW PER 2009). Consequently, there has been late disbursement of the funds, and reallocation of the funds to other activities were the major reasons for failure to fully execute the recurrent budget, while the major reason for failure to fully execute the development budget is cumbersome procurement procedures (delays in tendering and awarding processes), failure to secure funding from other sources and the low absorption capacity of the Ministry (MoHSW PER 2009).
- *Service delivery and community participation:* Although not shared equally, improvement in quality of service provision has been recorded over the period. However, Private sector and NGO involvement in district health was low in some districts. Support to LGA health departments needed to be provided to improve service delivery;
- *Data gaps* still persist in the ministry, largely because of weaknesses in record keeping, particularly at the local levels and
- Cost sharing mechanism had limited success in achieving its goals of raising additional resources for health, improving the quality of services and improving the operation and functioning of health facilities. On the other hand, they have strengthened ownership and involvement by local communities.

The Challenge of the Envisaged Transition to GBS

The case of the health sector is used here to demonstrate several general points which are applicable to other sectors. The Ministry of Health has shown reluctance to shift to GBS. This put to question the position of SWAp in the sectors. The oldest SWAP is that found in the health sector. Currently the health sector SWAp does not involve money directly but with 21 DPs it involves time. The health sector basket has money and 11 DPs are involved in making decisions on allocations to various levels of government

(district, regional and central). The initial idea was to make SWAP transitional towards GBS. However, in practice, the global health initiative has come with large amounts of funds and these have distorted the mechanism of resource allocation and the whole work towards prioritization in resource allocation. In the course of operating the global funds initiative it has become apparent that there are binding constraints in the wider health system which needs to be addressed. Yet the global funds players are operating outside the health sector basket. Therefore the global funds initiative, IHP and World Bank have become large players operating in a parallel structure like a super structure not integrated into the health sector SWAp or basket fund. In fact, the global funds operate their own system in the PMO with no coordination with the health sector SWAP or basket fund. In searching for the way out of this problem the experience of Uganda may be useful here. In Uganda they have managed to make all dialogue go through SWAP. The fact that GOT is allowing the global funds to do what they want in their own parallel or super structure, it is sending wrong signals to the others that SWAP is not a preferred way of managing aid relationships at sector level. The outcome is that it is likely that the cost of delivering health care is escalating.

(iii) Transport Infrastructure

Background: the role of the transport sector in the economy and national plans

The broad subject of infrastructure embraces the sectors of transport, telecommunications and utilities (water and electricity). The team decided to limit this year's IMG to the subject of the transport infrastructure in order to keep the case study manageable. The transport infrastructure is mainly comprising road transport, railways and marine transports (particularly ports), that have been the object of ODA support. However, for the purpose of this study the focus is on roads, as this mode of transport accounts for the lion's share of then sector (accounting for 80% of passenger traffic and 95 percent of freight traffic).

Transport sector development has been strongly reflected in all the key policy formworks, namely Vision 2025, MDG, Mini-tiger Plan, MKUKUTA and MKUZA, as well as the National Transport Policy (NTP) of 2003.

Coordination of Government Investment Interventions and ODA Support.

The transport sector is an important component of MKUKUTA, under which the coordination of DP support is based on the JAST framework. In the transport sector this

coordination was supposed to be promoted through a sector-wide approach (SWAp), particularly suited for organizing sector dialogue around sector strategies and policy directions as well as assessing sector performance. According to the Joint Infrastructure Sector Review (JISR) of October 2009, only first step to establishing such a SWAP in the transport sector has being undertaken. The size of each investment undertaking in the sector has contributed to slowing down the pace of moving towards SWAP coordination in the transport sector in accordance with the JAST objectives.

The roads network

In the last 15 years there has been an impressive record of investments in the road network. During the period 2005 and 2010 the ratio of poor quality roads declined from 18% to 11% while the share of good roads increased from 47% to 56%. The rest of the roads were rated fair. This achievement was due to strong backing from development partners like EU, AfDB, IDA, Norway, Japan, and Denmark, as well as Kuwait, Saudi Arabia, BADEA, OPEC Fund and Italy. According to government officials, this achievement was also due to government determination to press ahead with an ambitious roads improvement programme, sometimes against silent resistance by some DPs to government's unilateral decision to the exclusive use of domestic resources in cases where external resources were not forthcoming.

Yet despite recent efforts to step up investment in this sector, the road transport subsector is still seriously under-invested, compared to requirements and to Tanzania's road density of about 96 (according to 2009 MID) when compared to road densities prevailing in other countries. All types of roads considered (over 86,472 kms), only 6700 km (8%) are paved. Under-investment in roads has resulted in maintenance backlogs. The maintenance needs exceeded the maintenance budget and the situation has worsened in the last 3 years. In 2007/08 maintenance budget was 86% of maintenance needs but this percentage declined to 67% in 2008/09 and to 58% 2009/10 according to data from the Ministry responsible for Infrastructure Development. The GOT is making its best on the road maintenance budget, for instance in 2009/10, providing Tshs. 177 billion from the Road Fund or an increase of about 21% over the 2008/09 budget but this will not off-set the backlog.

The ten-year Transport Sector Investment Programme (TSIP) is to be implemented in two phases. Phase I (2007/08-2011/12) has a total financial requirement of USD 6.2 billion and is already under implementation to the tune of 40% by mid-2009. About 64% of financial expenditure had been made by March 2009. Challenges of inadequate resource allocation, delays in releasing development funds and cost escalation have contributed to lagging implementation.

The three-years Rolling Plan of TSIP implementation runs from 2009/10 to 2011/12 and has updated priorities and aligned them to MTEF. According to the Tanzania Sector Investment Programme (TSIP 2006-2016), the GOT is determined to continue scaling up investment in the roads subsector, but this requires funds of more than 50% above the level attained in the past few years. It is therefore imperative to attract substantial foreign assistance as well as participation of the private sector in the PPP arrangements. But huge challenges remain, as explained below:

- Serious prioritization of scaled up infrastructure investment, in competition with the social sector expenditure, which can yield a better supply side response to boost the economy;
- Within the transport sector it is necessary to prioritize and sequence relevant investments. These issues involve political considerations along with economic analysis
- Uphold a correct sense of balance between the urge for new investments (which is relatively more popular politically and more acceptable to some donors), versus rehabilitation and regular maintenance of acquired infrastructures (which is relatively less appealing to some donors who would like to show the flag associated with new roads).

Financing Transport Sector Investments

In the past, the number of donors in the transport sector has remained fairly limited. The key donors in the roads subsector have been the EU, Denmark, Japan, USA, AfDB, World Bank, Norway, UK, Kuwaiti, BADEA and Italy. More recently the MCC and Korea have become prominent. In fact for the MCC, Tanzania had the largest programme allocation with a grant of US\$ 698 million in 2009. The observation is that in recent years the magnitude of funds required in this capital intensive sector seems to

deter those donors with smaller overall programmes. As a result, co-financing arrangements have gained ground, which is welcome news as it promotes more joint actions that are liable to reduce transaction costs both for Tanzania and the donors.

Another aspect of financing issues is in relation to rural transport infrastructure. In this respect, a number of DPs have supported implementation of the Local Government Transport Programme (LGTP: 2007-2012) which is devoted to improving district and rural roads. This programme is however encountering a financial gap, even though several DPs have come to its support (2008). These include DANIDA, World Bank, EU and JICA, but the door it is still open to other donors.

In recent years, Tanzania has considered raising non-ODA funds for expansion of investments in its infrastructure, through sovereign borrowing on domestic or international commercial credit markets. Following Ghana's decision to issue a US\$750 million sovereign bond on international markets in 2007, and active pursuit of this option by Kenya and Uganda, Tanzania was also exploring the same option, but the onset of the financial crisis slowed the effort and the momentum has not yet been fully regained. This approach might be correct, but countries such as Tanzania should be especially wary about jeopardizing their hard-won debt sustainability, given that only recently they had to go through protracted HIPC's debt relief negotiations. Furthermore, emphasis is being placed on invoking the participation of the private sector now that the PPP policy has been formulated.

The challenge here is to make sure that investment in infrastructure are strictly focused on opening up production and other productive investments which will boost growth of the economy and boost the capacity to service the debt through increased domestic revenue and exports. Consistent with growth for poverty reduction, more investment in rural road network is warranted but financial constraints are inhibiting progress in this area.

A substantial part of infrastructure investments are of regional dimension and finances are being raised from that perspective. However, dialogue at the national level has not incorporated the regional dimensions of financing investments. It is recommended that

the regional perspective should be part of the national dialogue to ensure consistency and comprehensiveness.

Governance Issues in the transport sector

It is believed that the quality of contract management has impact on costs especially of large road projects as relates to containment of cost overruns and timing of project completion that are notoriously found weak in public and even private infrastructure projects in the developing and developed countries. Above all, governance has consequence in the quality of the infrastructure with lasting impact on the economic benefits to be derived from the particular infrastructure investment¹⁹.

It is noted that the roads subsector handles the biggest number of large contracts in the country. In the same vein, though commendable efforts have been made in the country to fight corruption, the roads sector is prone to large-scale corruption, although corruption as such is a serious problem in several other sectors of the economy as well. Complaints about corruption in the road construction and generally in the construction industry as whole have been aired at different fora (e.g. 2009 GBS/MKUKUTA Annual Review).

To deal with such malpractices, GOT instituted public procurement legislation and relevant regulatory institutions which are making reasonable progress. The Public Procurement Regulatory Authority (PPRA- established since 2004) which is closely connected with construction works in the procurement process, has been assessed in the 2007 and 2009 GBS Annual Reviews as having made promising advancement in capacity building, helping LGAs to increasingly comply with the Public Procurement Act, helping MDAs establish Project Management Units (PMU's) and advancing to full operationalisation of the scheme of service for procurement cadre by 2010. Further progress has been made by the sector in establishing Procurement Management Unit to

¹⁹ This argument is deliberately a bit simplified for practical presentation, since there are other factors that combine to make total effectiveness such as (i) the quality of project selection and overall management project implementation and operation, (ii) the regulatory and policy regimes, (iii) the human and institutional factor endowments of the infrastructure sector, (iv) and the financing means applied at the phase of construction (ref; IMF Working Paper No. WP/08/256 Creating Sustainable Fiscal Space for Infrastructure: The Case of Tanzania by Teresa Ter-Minassian, Richard Hughes, and Alejandro Hajdenberg - November 2008

oversee the procurement process in road construction works. Nonetheless, the PPRA still needs constant political and financial support for instance in carrying out procurement audits and raising procurement standards particularly in the parastatals.

(iv) Governance

Governance refers to the rules, processes, and behavior by which interests are articulated, resources are managed, and power is exercised in society. It is further defined as (i) the process by which those in authority are selected, monitored and replaced, (ii) the capacity of the government to effectively manage its resources and implement sound policies, and (iii) the respect of citizens and the state for the institutions that govern economic and social interactions among them (World Bank)²⁰.

In less than a decade, governance has moved to the forefront of the development agenda. Governance is now at the centre of the new modalities for aid delivery. The shift from project to programme aid has attracted attention to governance and accountability especially of public resources. The manner in which governance and in particular political governance concerns have been practised in Tanzania has introduced an element of uncertainty resulting in reduced predictability of resource flows. There is need to improve the manner in which governance concerns are expressed in the GOT-DP dialogue.

GOT having expressed preference for the GBS aid modality it is expected that this GBS would be best placed to promote good governance practices just as progress in good governance, in particular, PFM systems would facilitate further channelling of resources through the GBS modality. Budget support is a potentially powerful instrument to foster governance. This approach suggests that

- Respect for national systems and processes would make it more likely to use the general budget support and SPSPs to increasingly work through the partner countries own budgetary and planning systems/procedures;

²⁰<http://web.worldbank.org/WBSITE/EXTERNAL/WBI/EXTWBIGOVANTCOR/0,,contentMDK:20725248~menuPK:1976990~pagePK:64168445~piPK:64168309~theSitePK:1740530,00.html>

- Such a situation would help to reinforce the credibility, effectiveness and legitimacy of key domestic governance processes;
- Budget support, by providing funding linked to agreed outcomes (based on indicators of progress), for instance, in public financial management, would be capable of creating additional incentives for reform;
- By providing funding through national budgets, the development partners can increase their leverage capacity and they stand a better chance of strengthening partnership in the dialogue on the national budget.

Assessment on Cluster III of MKUKUTA “Governance and Accountability” has indicated that

- Participation of people in local governance institutions and processes has improved with participation being better in rural areas than in urban areas possibly on account of the exercise of engaging communities in the O&OD. However, the effectiveness of O&OD and its institutionalization on the ground has yet to be assessed comprehensively with a view to drawing lessons on how it could be improved;
- There is an increase in information dissemination and accountability of LGAs. About 40% of LGAs posted fiscal information on their public notice board. The challenge is to make reports user friendly to all people so that feedback can be encouraged;
- Allocation of resources has depicted a shift towards LGAs in many respects. Two challenges have been identified in this regard. First is the challenge of capacity development at the local level to ensure that LGAs can plan effectively for the use of public resources to realize broad and shared growth of their respective local economies. Second, willingness of Central Government to desist from giving directives about how the resources allocated to LGAs are to be spent i.e. prescribing shares to be spent on specific items of the budget, a practice which negates the spirit of decentralization and ownership and that level;

- The GoT including LGAs are increasingly complying with the financial regulations and Public Procurement Act. The number of LGAs with clean reports increased from 9% in 1999 to 54% in 2007/8. The number of MDAs with clean reports increased from 34% in 2004/5 to 71% in 2007/8. The average level of compliance of procuring entities with the Procurement Act 2004 has increased from 39% in 2006/7 to 50% in 2009. Judging from these trends, it would appear that the target of 80% by 2010 may not be achieved. There is need to develop the capacity of MDAs and LGAs to ensure credibility of procurement process and cash flow management;
- MKUKUTA Implementation review has shown that citizen satisfaction with most government service is reported to have improved. For example, with education it has increased from 59% in 2001 to 81% in 2008 and health increased from 50% in 2001 to 64% in 2008. Satisfaction with water services has decreased from 46% in 2003 to 42% in 2008;
- The performance of the courts in handling cases has improved with the number of court cases outstanding declining and the persons in remand for 2 or more years declining from 16% in 2005 to 5% in 2008 and

Governance has turned out to be a major issue in aid relationships because of the perceived waste of public resources or perceived undue interference in the internal affairs of Tanzania. The differences that have emerged in the area of governance have culminated accusations and counteraccusations on the part of both parties (Government and DPs). On the one hand, the DPs have been accusing government of not demonstrating seriousness in taking action explain the various episodes of corruption and such explanation is necessary for explaining to their capitals and constituencies in a convincing manner. According to the DPs they are not convinced that GOT is doing enough to address corruption. They argue that progress is not persistent, court cases are going on and on and the monitoring system is incomplete. PCCB is delaying investigations. As action is not seen and progress is not reported DPs the environment for erosion of trust is created. On the other hand, the government has been accusing

DPs of raising issues in the name of governance, issues which have nothing to do with governance. For instance, the episode of the way the Dutch investor was handled as a governance issue is not acceptable because it is not in the MOU for GBS. Raising it when it is not in the MOU is a sign of lack of respect of the MOU. GOT feels that DPs are not being fair to Tanzania in the way they use episodes like EPA and Richmond to try to put down Tanzania. GOT does not believe these episodes have anything to do with IFMS which the government believes is working quite well.

The governance dialogue in Tanzania has taken the form of negative response in the cases of crisis depicted by events reported in the mass media or through some other source of information, a concern expressed in some GOT circles. The emerging practice of tying aid to governance has introduced a serious element of unpredictability of aid disbursement. The governance area has been riddled with such cases of unforeseen events. In our opinion, the crisis in relationships in the area of governance is a crisis in the dialogue mechanism in this area. The solution lies in deeper, frank and open dialogue based on agreed criteria carefully worked out to the satisfaction of both parties. . The various time horizons (short, medium and long term dimensions) of governance i.e. what can realistically be achieved by when and through what milestones has yet to be worked out in precise terms acceptable to GOT and DPs. This has introduced elements of ad hoc decision making in this area. Sometimes both parties have been tempted to agree on performance criteria which do not take full account of the time it takes to change traditions and cultures and to build institutions of governance and democracy. There has been concern that the assessment of the cluster on governance and accountability has been constrained by data limitations for several indicators and the appropriateness of many of the indicators used has been questioned. The need to improve indicators for measuring performance in the area of governance is being acknowledged. In this regard, it is proposed that dialogue on governance should be accompanied by discussion and agreement on indicators to which incentives may be tied.

(v) Main Lessons Emerging from Sector samples

The selected sector studies have brought into the picture several lessons:

First, it has been demonstrated that the national level progress in government and DP coordination and other ideals enshrined in the JAST are not uniformly rolled down to sector levels and the rates of achievement vary by sector. One of the principal reasons for this disconnect is the variation in the number of intrinsically interested parties and the nature of the sector objectives and driving forces. The composition of aid modalities varies by sector with greater levels of project aid more likely in infrastructure where large projects are dominant while GBS is more likely in governance reforms where projects are less tangible. A related lesson is that the modality of project funding is likely to remain suitable for funding certain sectors (e.g. transport investments) than others (e.g. health or governance) that can easily be adapted to GBS and basket funding.

Second, there was the notion that SWAPs are to be an intermediate stage in the progress towards GBS. In practice this transition has proved to be very challenging. The consolidation or reinvigoration of the sector SWAPs seems to stand out also as a necessary priority.

Third, the relationships between Government and DPs can move from a very poor state to an improved state through persistent dialogue as education sector has demonstrated. Improvement in the leadership role of the Ministry of Education, coupled with increased commitment by government in the form of expanded allocation of budgetary resources to the sector contributed to reinforcing dialogue making it more general and sector-wide and concentrated on policy issues concerning the entire sector. The dialogue is now an accepted phenomenon on both sides. This case has shown that steps taken to build capacity for providing effective leadership in policy dialogue and stepping up capacity building in policy discussions and enhancing clarity of the long term strategy has paid off.

Fourth, implementation capacity takes many forms such as late disbursement of basket funds, low absorption capacity, delay in tendering process, different financial management procedures among donors and delays in processing and warranting of funds and payments contributed. These need to be addressed in every sector to allow for smoother implementation of the sector programmes.

Fifth, decentralization and the related process of devolution have to be guided by sufficient communication between the Ministries and PMO-RALG. Phasing of the reforms and closer collaboration between the two bodies and mobilizing participation of communities, private sector and NGOs is essential for effective reform.

Sixth, the envisaged transition from basket funding to GBS has been inhibited by large funds from the World Bank and the global funds which not only come in large amounts of funds but they operate outside the regular SWAPs. They have become large players operating in parallel structures like a super structure not integrated into the sector SWAP or basket fund. It is proposed that efforts should be made to make all funds and dialogue go through SWAP so the government can send the right signals to all donors that SWAP and GBS are the preferred modalities of managing aid relationships at sector level.

Seventh, the manner in which governance and in particular political governance concerns have been practised in Tanzania has introduced an element of uncertainty resulting in reduced predictability of resource flows. There is need to improve the manner in which governance concerns are expressed in the GOT-DP dialogue. There has been concern that the assessment of the cluster on governance and accountability has been constrained by data limitations for several indicators and the appropriateness of many of the indicators used has been questioned. The need to improve indicators for measuring performance in the area of governance is being acknowledged. Sometimes both parties have been tempted to agree on performance criteria which do not take full account of the time it takes to change traditions and cultures and to build institutions of governance and democracy. In this regard, it is proposed that dialogue on governance should be accompanied by deeper dialogue reaching agreement on indicators to which incentives may be tied.

Eighth, where a substantial part of the activity (e.g. infrastructure investments) are of regional dimension and finances are being raised from that perspective, dialogue at the national level should incorporate the regional dimensions of financing investments to ensure consistency and comprehensiveness.

4.0 ZANZIBAR

4.1 Anatomy of Aid Flows

4.1.1 *Assessment of overall ODA allocations*

The story on ODA allocations from Zanzibar is not different from that of the mainland. Data shows that the majority of aid flow to Zanzibar goes to direct project/program financing followed by basket funding. While GBS funding was higher in previous years, current statistics show a declining trend. Previous studies had shown that the process through which aid flows to Zanzibar is complex. In some cases the MoFEA-Zanzibar has no information on the DPs commitments to the various MDAs projects and programs. In some cases the MDAs are ambitious by including projects which are not yet confirmed or committed by the DPs. Additionally, the data provided herein includes only grant support to Zanzibar. Loans, signed and guaranteed by the URT Government, are captured in the URT dataset.

(i) **Trend in ODA flows**

As shown in Table 6 total grant aid disbursed directly to Zanzibar increased from Tshs. 10.3 billion in 2006/07 to Tshs. 28.0 billion in 2007/08 to Tshs.78.4 billion in 2008/09. The ODA flows to Zanzibar have been increasing in recent years with the volume of ODA flows in 2008/09 being almost triple the amount reported for 2007/08. This is largely due to the major Norway-funded project installing a sub-marine power cable to connect Pemba to the electricity grid of Mainland Tanzania, a project worth close to Tsh 50 billion.

Table 6: Total Grant Aid Disbursed Directly to Zanzibar, 2006/07 – 2008/09

	Grant Aid (TSh)
2006/07	10,283,617,482
2007/08	28,024,227,903
2008/09	78,351,810,598

Note: This data excludes GBS negotiated as a percentage of the URT Government's receipts.

Source: AMP Zanzibar Workspace, 2010.

As shown in Table 7 the main sources of direct project funds have been Norway, African development Fund, KfW, Denmark and UNDP.

Table 7. Sources of Grant Aid Disbursed as Direct Project Funding 2006/07-2008/09 (Tshs)

	2006/07	2007/08	2008/09
Direct Project Funds (DPF) (101)	10,283,617,482	28,024,227,903	78,351,810,598
African Development Bank (1)	330,386,403	-	-
African Development Fund (2)	34,082,735	978,227,924	36,364,951
Denmark (2)	1,084,441,820	2,806,704,474	4,629,948,924
Finland (1)	-	-	-
Food and Agriculture Organisation (9)	-	-	1,171,736,794
International Development Association (1)	-	-	-
International Fund for Agricultural Development (2)	1,235,160,864	933,587,066	1,710,917,792
International Labour Organisation (1)	-	18,579,300	-
Japan (11)	539,718,799	13,002,013,012	1,222,201,120
kfw (1)	-	-	8,165,478,326
Norway (4)	3,939,154,461	4,987,720,991	54,241,389,891
Sweden (4)	1,724,308,686	1,482,764,677	2,441,501,000
United Nations Children's Fund (30)	320,556,105	897,945,570	1,220,329,911
United Nations Development Programme (8)	624,079,101	2,275,722,551	2,871,625,242
United Nations Population Fund (4)	451,728,509	631,594,306	640,316,646
United States Agency for International Development (17)	-	-	-
World Food Programme (3)	-	9,368,032	-
TOTAL (101)	10,283,617,482	28,024,227,903	78,351,810,598

(ii) Aid Disbursement Captured in the Exchequer

Data from Zanzibar show more discrepancy and the use of the Exchequer system is at minimum only AfDB, Norway, IFAD, UNDP and UNPF have disbursed funds through the Exchequer for 2006/07 to 2008/09. Total funding disbursed accounted for only 18.5%, 16.7% and 6.5% for 2006/07, 2007/08 and 2008/09 respectively. Some important donors (e.g. World bank, USAID and most of the new donors) have either responded partially or not responded to the request to provide data to RGoZ.

Donors are expected to inform the RGZ of the amount of commitments over the rolling three-year period. All disbursements should be made through the Exchequer system and released in a timely manner to the spending agencies. Donors are also expected to report their actual disbursements quarterly to RGZ. Some donor country offices provide annual projections of their disbursements, but they are not reliable,²¹ nor are they broken down by quarter. At present, some donors, including the UN group, ADB and Norway, use the Exchequer system: others continue to disburse advances and replenishments direct to project accounts, which adds to the difficulty of complete accounting. There are no regular donor reports on project disbursements.

When collecting data from donors, RGoZ requested that projects using the Government Exchequer System be indicated. Though economic governance and PFM activities are being undertaken to strengthen the exchequer system still the level of use of these systems is low. Data on external resource flow through the CSOs has been difficult to capture. The situation has improved somewhat following the establishment of a Committee, which consists of members from NGOs, government and other institutions, to co-ordinate and monitor external flows which goes directly to Non Government Organizations.

²¹ There is a confusion of the RGZ financial year (July-June) with the calendar year, some donors provide commitment data rather than disbursement data, and some provide only the total commitment without a breakdown by year.

Table 8: Percentage of Project Grant Aid Disbursed Through the Exchequer System, 2007/08 and 2008/09

	2007 / 2008			2008 / 2009		
	Total Disbursements	Through the Exchequer	Percentage	Total Disbursements	Through the Exchequer	Percentage
ADB	978,227,924	978,227,924	100	36,364,951	36,364,951	100
Denmark	2,806,704,474		-	4,629,948,924		-
FAO	-		N/A	1,171,736,794	32,936,800	3
IFAD	933,587,066	933,587,066	100	1,710,917,792	1,710,917,792	100
ILO	18,579,300		-	-		N/A
Japan	13,002,013,012		-	1,222,201,120		-
KfW	-		N/A	8,165,478,326		-
Norway	4,987,720,991		-	54,241,389,891		-
Sweden	1,482,764,677		-	2,441,501,000		-
Unicef	897,945,570		-	1,220,329,911		-
UNDP	2,275,722,551	2,215,466,286	97	2,871,625,242	2,871,625,242	100
UNFPA	631,594,306	554,642,290	88	640,316,646	416,969,013	65
USAID	-		N/A	-		N/A
WFP	9,368,032		-	-		N/A
TOTAL	28,024,227,903	4,681,923,565	17	78,351,810,598	5,068,813,798	6

Source: AMP Zanzibar Workspace

Out of 14 donors known to be active in Zanzibar only were found to be channeling their project support through the Exchequer system in 2008/09 up from four in 2007/08. The share of project aid which is not channelled through the Exchequer has declined from 17% in 2007/08 to 6% in 2008/09. Most of those donors who use the Exchequer system tend to channel all the project funds through the system an indication that once the decision to use of Exchequer systems has been made such donors stick to that practice. The 2008 Survey of Compliance with the Paris Declaration showed that *no* project aid used government procedures. Only the Zanzibar share of general budget support, which goes straight into the Exchequer account, is administered according to RGZ procurement, payment/accounting, audit and reporting procedures. In 2008/09, the last complete financial year, general budget support (including MDRI) was TZS 31,407 million, which represented only 15.3 percent of all aid. Some recently agreed projects are using some government procedures.

The Sectoral Aid Coordination Committee (SACC) incorporating members from all sector Ministries in Zanzibar, meets monthly to report on received and expected external resources and has been instrumental in enhanced capture of external flows in the Exchequer system of Zanzibar. This information is used to track resource flows, contribute to budgeting and in monitoring and evaluation

(iii) Modalities of Aid for MKUZA Implementation

Analysis of the allocations to MKUZA shows more contribution to Cluster I for 2006/07(56.1 %), and 2008/09(73.5%) and Cluster II for 2007/08 (67.2%). Except for 2007/08 Cluster III has received lower than 10%. If however, the submarine cable project is counted out of these figures, allocation of resources to cluster II becomes dominant. In fact, many more donors (eleven) were active in Cluster 2 than in Clusters 1 (five) and 3 (four) in the period covered.

As regards sectors for 2006/07 Energy and Minerals sector received highest allocation (.38.8%) followed by Education sector, (17.9%) and Health (14.7%), Agriculture (12.0%). If the Norwegian sub-marine cable project is excluded because of its size and fir being a one time project, the overall picture of aid by sector, causing Energy and Minerals as a sector fall back to the middle ranks. It was also found that many sectors did not receive any aid at all during 2008/09 (e.g. Human Resource Management, Innovations and Technology, Legal and Rural Development). In the 2007/08, Water sector received more funding (46.1%) followed by Energy and Minerals (18.1%), Health 12.7% and Interesting to note is that Governance received only 1.0% in 2006/07 but received 11.1% in 2007/08 and 2.9% in 2008/09.

There is need to arrange to make a shift towards the growth and poverty reduction cluster possibly through correcting the balance of aid modalities towards GBS and basket funds which would have greater flexibility in allocating resources according to MKUZA priorities.

MKUZA Theme is quite a high level of aggregation – only three such themes exist, so spending within each theme may display a great degree of variation. It is proposed that clusters in MKUZA II should be disaggregated to more narrowly defined priorities and make sure that resource allocation is made according to those priorities.

Table 9: Zanzibar ODA Funds Allocation to MKUZA Clusters

Cluster	2006 / 2007		2007 / 2008		2008 / 2009	
	In Mil	%	In Mil	%	In Mil	%
	Tshs	age	Tshs	age	Tshs	age
Cluster 1: Growth and reduction of income poverty	5,774.13	56.1%	6,072.84	21.7%	57,581.50	73.5%
Cluster 2: Improved quality of life and social well-being	4,401.67	42.8%	18,837.21	67.2%	17,956.36	22.9%
Cluster 3: Governance and accountability	107.81	1.0%	3,114.17	11.1%	2,813.95	3.6%
Unallocated	-	0.0%	-	0.0%	-	0.0%
TOTAL	10,283.62	100.0%	28,024.23	100.0%	78,351.81	100.0%

While data has been collected from DPs and allocation by cluster analyzed, there is concern that clusters are too broad making it difficult to define and identify alignment specifically to MKUZA. In addition, there is no clear process of selection of projects in such a manner that they are aligned to MKUZA.

Non-traditional donors, mainly Korea and China are active in Zanzibar. Korea is mainly engaged in irrigation projects which have just been completed. China is engaged in supporting many small projects.

Table 10: Sector Activity Count Annual, 2006/07 to 2008/09

	Activity Count	Funding		
		2006 / 2007	2007 / 2008	2008 / 2009
		Actual Disbursements	Actual Disbursements	Actual Disbursements
Agriculture (10)	10	1,235,160,864	933,587,066	2,672,365,787
Food and Agriculture Organisation (7)	7	-	-	961,447,994
International Fund for Agricultural Development (2)	2	1,235,160,864	933,587,066	1,710,917,792
World Food Programme (1)	1	-	-	-
Development Administration (1)	1	26,785,981	185,704,271	-
Sweden (1)	1	26,785,981	185,704,271	-
Economic Management (4)	4	298,144,871	98,841,870	678,407,102
Norway (1)	1	-	-	547,144,924
United Nations Development Programme (3)	3	298,144,871	98,841,870	131,262,178
Education (8)	8	1,844,933,787	1,708,919,990	1,398,425,019
African Development Fund (1)	1	34,082,735	251,500,301	36,364,951
Japan (2)	2	114,952,852	94,998,507	-
Sweden (2)	2	1,648,236,500	1,205,780,362	1,183,540,068
United Nations Children's Fund (2)	2	47,661,700	156,640,820	178,520,000
United States Agency for International Development (1)	1	-	-	-
Energy and Minerals (3)	3	3,988,440,666	5,079,001,035	50,608,810,460
Norway (2)	2	3,939,154,461	4,987,720,991	49,350,849,528
Sweden (1)	1	49,286,205	91,280,044	1,257,960,932
Environment (1)	1	-	-	-
Finland (1)	1	-	-	-

Gender (1)	1	157,586,172	248,823,255	206,963,800
United Nations Population Fund (1)	1	157,586,172	248,823,255	206,963,800
Governance (19)	19	107,814,620	3,114,173,404	2,266,803,105
African Development Fund (1)	1	-	726,727,623	-
United Nations Children's Fund (13)	13	83,502,754	210,565,100	219,202,750
United Nations Development Programme (2)	2	24,311,866	2,176,880,681	2,047,600,355
United States Agency for International Development (3)	3	-	-	-
HIV/AIDS (5)	5	301,622,363	9,368,032	-
Food and Agriculture Organisation (1)	1	-	-	-
United Nations Development Programme (1)	1	301,622,363	-	-
United States Agency for International Development (1)	1	-	-	-
World Food Programme (2)	2	-	9,368,032	-
HEALTH (26)	26	1,515,528,759	3,568,931,801	5,430,933,296
Denmark (2)	2	1,084,441,820	2,806,704,474	4,629,948,924
Japan (1)	1	105,953,755	-	-
United Nations Children's Fund (9)	9	170,553,651	485,604,350	653,932,298
United Nations Population Fund (1)	1	154,579,534	276,622,978	147,052,075
United States Agency for International Development (13)	13	-	-	-
Legal (1)	1	-	-	-
International Development Association (1)	1	-	-	-
Natural Resources and Tourism (1)	1	-	-	210,288,800
Food and Agriculture Organisation (1)	1	-	-	210,288,800
ROADS (1)	1	-	-	4,343,395,440
Norway (1)	1	-	-	-

	1		-	4,343,395,440
Unallocated (0)	-		-	-
Social Development (11)	11	158,400,803	169,862,674	1,147,738,344
International Labour Organisation (1)	1		18,579,300	-
United Nations Children's Fund (6)	6	18,838,000	45,135,300	168,674,863
United Nations Development Programme (2)	2		-	692,762,708
United Nations Population Fund (2)	2	139,562,803	106,148,074	286,300,772
Transport and Communication (1)	1	330,386,403	-	-
African Development Bank (1)	1	330,386,403	-	-
Water (9)	9	318,812,192	12,907,014,505	9,387,679,446
Japan (8)	8	318,812,192	12,907,014,505	1,222,201,120
kfw (1)	1		-	8,165,478,326
TOTAL (102)	102	10,283,617,482	28,024,227,903	78,351,810,598

(iv) External Resources Projections

It was observed that data on aid resource flows are not of the quality that is consistent with making reliable projections and this situation has been confirmed by the Aid Management in Zanzibar (March 2010). The report indicates that only a subset of donor funded projects is included in the budget and where projections are collected and included in the budget, they are often not very reliable. The problem arises from poor quality figures being submitted to the Ministry of Finance and implementation bottlenecks. Government needs to collaborate with development partners to ensure that accurate MTEF figures are provided in a timely manner for the RGoZ budget.

4.1.2 Aid Modalities: Composition, and Trends

The composition of aid is dominated by project aid as shown in Table 10 , 11 and 12..

Table 11: Composition of Aid in 2008/09

	Donor	Disbursements 2008/09 (TSh)	%
General Budget Support*	<i>Via URT Treasury</i>	30,493,959,713	28
Basket Funds		-	-
Project Support	<i>African Development Fund</i>	36,364,951	
	<i>Denmark</i>	4,629,948,924	
	<i>Finland</i>	-	
	<i>Food and Agriculture Organisation</i>	1,171,736,794	
	<i>International Development Association</i>	-	
	<i>International Fund for Agricultural Development</i>	1,710,917,792	
	<i>International Labour Organisation</i>	-	
	<i>Japan</i>	1,222,201,120	
	<i>KfW</i>	8,165,478,326	
	<i>Norway</i>	54,241,389,891	
	<i>Sweden</i>	2,441,501,000	
	<i>United Nations Children's Fund</i>	1,220,329,911	
	<i>United Nations Development Programme</i>	2,871,625,242	
	<i>United Nations Population Fund</i>	640,316,646	
	<i>United States Agency for International Development</i>	-	
<i>World Food Programme</i>	-		
<i>Sub Total</i>	78,351,810,598	72	
Grand Total		108,845,770,311.37	100.00

* GBS figures are taken from budget flash reports. The donor is listed as URT Treasury since disbursements are made from the central pool of budget support provided to the URT Government, and thus cannot be split between individual donors, who do not provide Zanzibar with any budget support at all directly.

Source: AMP Zanzibar Workspace, RGoZ Budget Department Flash Reports.

Of aid that is negotiated directly with the Revolutionary Government, 100% comes in the least-preferred modality of direct project support (according to preferences expressed in JAST). No genuine Zanzibar baskets exist. Zanzibar instead receives some support from within general URT baskets. This functions from the RGoZ point of view as additional project support to the extent they are implemented as stand alone activities in Zanzibar without the benefits of basket funding such as flexibility in resource allocation and rationalized and streamlined reporting and management requirements). For these gains to accrue to RGoZ genuinely Zanzibar-specific baskets should be organized around MKUZA themes.

Zanzibar is supposed to receive an allocation of 4.5% of total URT GBS. In practice however, Zanzibar has been receiving a lower albeit increasing share from URT GBS as

shown in Table 12 below. The level of GBS actually disbursed to Zanzibar may be partly explained by the use of loan-financed General Budget Support, which Zanzibar was not receiving. However, it was decided that from 2009/10 onwards, Zanzibar would receive 4.5% of loan funded GBS as well. URT presents requirements of resources based on PAF. However, there is concern that the voice of Zanzibar in this process is low and space for policy influence is rated low. While GBS remains the most-preferred option for accessing funds from development partners, Zanzibar would benefit greatly from having adequate voice on how GBS to Zanzibar is provided with a view to attaining its full potential as a funding source in Zanzibar.

It is recommended that arrangements be made to ensure that Zanzibar has adequate voice in planning GBS resources. Further concern has been raised regarding the magnitude of GBS allocations compared to resource requirements for implementing MKUZA. It has been pointed out that the GBS allocation has no close bearing to Zanzibar's resource requirements for implementing MKUZA.

Table 12: General Budget Support to Zanzibar as a Proportion of the Total to the Union Government, 2005/06 – 2008/09

	2005/06	2006/07	2007/08	2008/09
Total URT Budget Support	525,704,895,227	865,510,543,159	858,772,636,081	860,701,968,948
Zanzibar Budget Support	14,770,000,000	19,506,200,000	26,286,000,000	30,493,959,713
Percentage	2.81	2.25	3.06	3.54

Source: AMP Government Management Workspace, Budget Flash Reports

Note: This data will change when URT Budget Support figures are updated. These figures currently include GBS Loans, which Zanzibar did not receive.. The percentages shown are underestimates.

Basket funding which comes to Zanzibar does not originate from SWApS organized in Zanzibar but it is an allocation from relevant baskets in URT. It has been proposed that Zanzibar specific baskets around broader categories of activities possibly coinciding with the three clusters of MKUZA. Creating baskets in Zanzibar along the lines of broad SWApS could be a good starting point. In the course of time lessons from experience would inform improvements over time.

4.2 Progress in Aid Effectiveness

The magnitude of aid flows that go through the Government of Zanzibar's public financial management and procurement systems is still on the low side. Donors persist in administering aid using parallel systems and in many cases in spite of the number of reforms that the Government of Zanzibar has adopted in recent years, including PFM, Public Procurement Act, and IFMIS. The reasons given by most donors are associated with concerns about the quality of these country systems and standards at which they are actually operating. Operating outside government systems not only undermines the very systems which are perceived to be weak but also these practices undermine the effectiveness of aid.

Policy dialogue: There is concern that there is not adequate DP engagement to reflect Zanzibar specific needs; at least it is not as developed as it is for Tanzania mainland. Dialogue is less developed partly because there are few active DPs. There is no structured dialogue. Most dialogue takes place at the level of URT where sometimes 2-3 people from Zanzibar are usually invited. These numbers are small and capacity in that area needs to be developed.

Most of the DPs are engaged in dialogue on a project by project basis. This applies to traditional and non-traditional donors except those from the UN system. Dialogue is confined to GBS negotiations. GBS allocation to Zanzibar comes from its share in the URT. As regards dialogue, communication between Tanzania mainland and Zanzibar is rather poor. The new dialogue structure governing Zanzibar's aid relationship needs to be established, in order to regularize the interactions between Government and donors, to stimulate information sharing and ensure that aid is actively managed to maximize its usefulness. PAF is an important basis for dialogue and should be shared more appropriately. However, there are no Zanzibar-specific indicators in the PAF.

Though donors have developed a sophisticated dialogue structure governing through which they engage with each other and with the Government, no similar structure has been put in place for Zanzibar. There are two options here. First option is to establish similar structures which will address Zanzibar specific concerns. Second option is to

organize for more effective participation in the URT dialogue structures in which the Zanzibar specific issues would be addressed. Considering that JAST is one across the URT, the second option is more consistent with the situation on the ground where JAST is a common guiding document to all parts of the Union. It is therefore recommended that the second option be adopted whereby the Zanzibar participants will be participating in URT dialogue structures. In this regard, it also recommended that weaknesses in the current participation of Zanzibar in the URT dialogue structures should be addressed. For instance, the problem of short notice for meetings should be addressed and it should be possible to make greater use of ICT in communications and information sharing.

It has been pointed out that no protocols or functioning guidance on how donors should act on Zanzibar-specific issues currently exists. It is recommended that this be developed where necessary within the URT dialogue structure and participants from Zanzibar should take the lead in articulating such specificities.

Division of labour which is stipulated in JAST has not started to work in Zanzibar considering the small number of donors. The first step towards evaluation of the feasibility and potential benefits of DoL will be the capture and analysis of information on aid distribution which has been recommended above. At present there are relatively more donors active in cluster II of MKUZA than other clusters. While donors should be urged to focus their support on fewer rather than too many sectors. The idea should be to reflect their respective comparative advantages. RGoZ should provide guidance to development partners to encourage donors to focus on specific sectors. In a subsequent phase, division of labour will be agreed upon whereby a few lead donors will be identified. Division of labour that is appropriate for Zanzibar should be worked out taking into account the reality of small number of donors in Zanzibar and the small number of sectors in which donors are active.

4.3 Conclusion and Recommendations for Zanzibar

- **Data availability** should be improved:
 - The new AMP system should continue to be consolidated so that ODA data capture can be improved over time by liaising more effectively with development partners and the sectors/ministries in Zanzibar.
 - The MTEF process should be consolidated with a view to improving projections of data on aid resource flows.

- **Dialogue:** There is need to involve Zanzibar more effectively in URT aid related dialogue and to strengthen the Zanzibar based dialogue..
 - RGoZ and development partners should organize for ensuring regular and structured communications. In particular, 'Core Group' meeting with a subset of donors active in Zanzibar should be revived and make sure the meetings are held regularly.
 - The Core Group should be widened to include new donors depending on their evolving importance.
 - More effective participation in the URT dialogue structures should be cultivated so that the Zanzibar specific issues can be addressed within the framework of JAST which is a common guiding document to all parts of the Union. It is recommended that weaknesses in the current participation of Zanzibar in the URT dialogue structures should be addressed with a view to realizing a better link between URT and Zanzibar.. For instance, the problem of short notice for meetings should be addressed and it should be possible to make greater use of ICT in communications and information sharing.

- **Basket funding** operating in URT should be made to cater for Zanzibar more effectively and an appropriate mechanism should be established for Zanzibar.
 - It is recommended that the participation of Zanzibar in SWAPs in URT dialogue structure should be strengthened and be made to accommodate more effectively the Zanzibar specificities. Participation of Zanzibar in SWAP discussions would ensure that Zanzibar makes its contribution to

the shaping of the URT approach to basket funding consistent with provisions in JAST.

- In the meantime a start should be made of establishing SWAPs in Zanzibar on the basis of which Zanzibar specific baskets would be initiated. In our opinion, the proposal made in the Aid Coordination draft of March 2010 that Zanzibar specific baskets should be established around broader categories of activities possibly coinciding with the three clusters of MKUZA is reasonable and deserves support. Creating baskets in Zanzibar along the lines of broad SWAPs would be a good starting point on the basis of whose experience improvements over time would be made.
- **MKUZA priorities** should be reflected more clearly in aid resource allocation
 - It is recommended that arrangements be made to make a shift towards the growth and poverty reduction cluster by correcting the balance of aid modalities towards GBS and basket funds which would have greater flexibility in allocating resources according to MKUZA priorities and by narrowing down MKUZA priorities.
 - MKUZA II should be disaggregated to more narrowly defined priorities and make sure that resource allocation is made according to those priorities. More effective participation of Zanzibar in the URT dialogue structure should also facilitate GBS allocation to have a closer bearing to Zanzibar's resource requirements for implementing MKUZA.
- **Division of labour** should be worked out in line with the guidelines contained in JAST taking into account the reality of small number of donors in Zanzibar and the small number of sectors in which donors are active.

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Conclusions

- **The volume and composition of ODA flows** increased from Tshs.1267 billion in 2004/05 to Tshs. 2870 billion in 2009/10. The relationship between budgeted and actual levels shows irregular outcomes but the deviations have not exceeded 10%.
- **Aid Disbursement Captured in the Exchequer** was estimated at 90% in 2005 and it was envisaged that it would rise to 95% by 2010. Government officials suggested that with the introduction of AMP, the target indicator of 95% has been achieved. While GBS is automatically on-Exchequer, Basket and Project Funding instrumentalities have taken both the on-exchequer and non-Exchequer format. Some donors and development partners, old and new ones, still do not use the government budgetary system, a situation which has tended to aggravate the discrepancies between DPs disbursements and what is recorded in the government budget system.
- **The achievements made under the AMP Facility are commendable.** However, the statistics on aid are still fragile with many sources not yet fully reconciled with each other. The practice of development partners providing annually commitment data for coming three year period and disbursement data including all kinds of support is a positive development. Emerging donor aid flows have not yet been comprehensively captured. Necessary pressure has yet to be effectively exerted on those who are relatively low performers in feeding into the AMP system.
- **The projected tentative indications from donors shows that aid flows are slated to decline** but this situation also depicts incompleteness in the data gathered from some donors who have not given their indications. The data is expected to be revised at the time of preparing the next MTEF. The actual volume of aid flows will be influenced by the level of trust and openness with which the status of performance of the economy and policy reforms will be discussed and agreed in the dialogue between GOT and the DPs.. Resuming the dialogue based on trust is critically important in this regard.

- **Aid Dependency is high and a strategy to progressively reduce it should be put in place:** It has been found that external funding to Tanzania has been playing a significant role and it is slated to continue to play a significant role in supporting government expenditure with ODA averaging around 40% of the national budget and 80% of the development budget. A major concern here is that while internal revenue has increased, the country's tax base is still too narrow to generate domestic revenue that is consistent with a firm trend to graduate from aid dependency.
- **A major concern is that an exit strategy from aid dependence has not been worked out.**
- **Allocation according to MKUKUTA and MKUZA priorities:** Tanzania mainland has been allocating more funds to Cluster II of MKUKUTA, while Zanzibar has been allocating more funds to Cluster I of MKUZA. The low funding of Cluster I which is focusing on Growth and Reduction of Income Poverty is raising concern because of its high potential to stimulate growth and reduce income poverty.
- **GBS is the preferred modality of aid delivery to Tanzania but the rising trend is not continuing at a satisfactory rate:** GBS is preferred in view of its ability to enhance both government ownership and alignment of aid to government policies and priorities. It is recognized that GBS has the potential to strengthen partnerships and minimize mistrust between the Government and Development partners. However, the trends in GBS in recent years suggest that all is not well. The share of GBS seems to have plateaued and the current mood among most DPs indicates that reversal of this trend is not in sight unless the dialogue is renewed based on trust and frank discussion.
- **The reasons for shifting from projects to GBS should be revisited first to see if they are still valid.** The new modality GBS seems to be too new for its performance to be judged negatively and its magnitude suggests that this modality has not been given the chance to function as the dominant modality for aid delivery.
- **Global funds or vertical funds are a phenomenon to be reckoned with in the new aid architecture.** However, the potential benefits and distortions

- created by these funds for Tanzania have not been fully understood and therefore action to align them with the rest of the aid flows has not been taken effectively.
- **A National Technical Assistance Policy has been developed** by the Government and a dialogue has started between the DPs and the Government on details of that policy. It appears that certain issues are so far not been clarified between the two parties and that further dialogue and discussion is therefore needed. Thus there is concern that the effects of such a policy is not likely to be felt as long as it is not supported by a clear position on the part of the Government on where to go with TA, what to include and what to leave aside, and how to proceed operationally. Also a number of important issues have to be dealt with in order to improve the utilization of National Technical Assistance and to make sure it functions in support of capacity development..
 - **Engagement of emerging donors in the dialogue is not satisfactory:** New donors, including those who have been active in supporting the development initiatives have not been engaged in the formal dialogue with government along with other DPs. The new donors have not been engaged at the country level discussions (e.g. DPG, Annual Poverty Policy Week, MKUKUTA and MKUZA working groups, etc) or associated informally in the DPG framework. This situation has contributed to making it difficult to draw them closer to aligning with country systems and policies.
 - **While trust between the JAST partners were at a peak at the time of the last IMG consultation we have found that this is less so today.** It seems that expectations have been divergent in terms of performance and perceived speed at which certain targets could be achieved. Different expectations regarding the balance between process and outcome have been expressed in various ways.
 - On the side of the DPs it is felt that performance has not been up to the mark, implementation of reforms has slowed down and government participation in the dialogue has not been satisfactory.

- On the side of government it is felt that there has been too much interference by DPs into internal affairs and too much engagement of DPs in micro-management of the economy.
 - This divergence in perceptions has led to divergence in expectations which has in turn contributed to erosion of trust. Yet trust is fundamental for any success in improving aid relationships and building the kind of partnership envisaged in the Paris Declaration and in JAST.
- **PAF achievement has been low at 50% in the last 5 years raising questions on realism of the targets and/or capacity and commitment to implementation of agreed actions.** In some cases clear measurable indicators of performance have not been developed and in other cases resources disbursement. In many cases of underperformance, sufficient explanation has not been given possibly because of the low level of trust that has characterized the dialogue between GOT and DPs.
 - **The underlying principles of the Paris Declaration of ownership, alignment, harmonization, managing for results and mutual accountability are still as important** as ever in order to maintain sustainability in the development efforts supported by the donor community.
 - **Of the five principles of the Paris Agenda alignment has been the most difficult to adhere to.** The simplest steps such as aligning to the budget system in the host country have been difficult to live up to. As regards other important areas such as procurements it has even been difficult too.
 - **Governance has come to occupy the centre of the new modalities for aid delivery.** The shift from project to programme aid has attracted attention to governance and accountability especially of public resources. The manner in which governance and in particular political governance concerns have been practised in Tanzania has introduced an element of uncertainty resulting in reduced predictability of resource flows. The dialogue on governance should be accompanied by open and frank discussion and agreement on indicators to which incentives may be tied. As governance is largely about politics, ways to better integrate the political dimensions in aid interventions with a coherent

set of institutional incentives have not been designed including articulation of procedures that facilitate effective implementation.

5.2 Recommendations

1. Projections be improved by urging DPs to provide their projections of expected aid flows in good time within the framework of MTEF.
2. GBS should continue to be the preferred aid modality. Teething problems should be addressed in a renewed dialogue.
3. The achievements of sector coordination through SWAPs should be consolidated to make sure that the improvement is more institutionalized and is permanent.
4. Efforts should be made to have all funds and dialogue go through SWAP so the government can send the right signals to all donors that SWAP and GBS are the preferred modalities of managing aid relationships at sector level.
5. SWAPs should be the first step in initiating coordination at the sector level and basket funding should be used initially as the funding modality to facilitate the transition from project aid to basket funding. However, the transition from basket funding to GBS should be stipulated in clear terms.
6. Project aid should be confined to large scale projects and pilots as proposed by JAST. However, a clear definition of what is meant by large infrastructure project should be provided and conditions under which project aid will be accepted should be specified.
7. Clarification is needed to indicate circumstances under which project aid should be a transition to basket funding and specify the processes to be followed in managing the transition.
8. During the transition from project to basket or GBS project aid should be properly disclosed and monitored while ensuring that the projects are aligned to the main MKUKUTA and MKUZA goals and objectives.
9. Project financing should be maintained within GBS whereby specific project funding is ring-fenced with a view to reducing the divergence between approved funding and disbursed funds for specific project implementation.
10. Vertical funds should be reckoned with as a part of the new aid architecture and innovations should be applied to manage these resources in a manner which is consistent with JAST.

11. Vertical Funds should be subjected to further investigation to establish its potential benefits and distortions that may be created by these funds for Tanzania. The outcome should be a policy developed to maximise benefits and manage distortions.
12. Where emerging donors are present and even if they are not always active in Tanzania, they should be engaged at the country level dialogue. The activities of the new donors should be drawn closer to aligning with country systems and policies.
13. Cooperation (and dialogue) with the new donors should be regarded as essential in the implementation of MKUKUTA and MKUZA. The aid strategic partnership with the new donors should be clearly shown in JAST-II.
14. The first priority is to implement a pay reform with the aim of making it attractive for skilled and qualified Tanzanians to work in the public sector. A study on good practices in attracting and retaining skilled personnel should be made and its results implemented;
15. DPs should continue to reduce the number of separately managed projects in order to reduce undue demand for project advisors and staff to run parallel processes.
16. Priority should be given to National Technical Advisors where the right expertise is available;
17. Draw up a more realistic picture of the different roles NTA should be expected to play: a role that can combine gap filling with capacity development to help keep systems within an organisation working, while bringing in expertise that can introduce better ways and approaches to working, new systems and procedures and demonstrate good work practices and work ethics;

18. Pooling of TC funds should be used to promote capacity development and national procurement should increasingly be used for mobilising expertise under conditions of clear roles and responsibilities.
19. Government should finalize its position vis-à-vis mobilization of resources from Tanzania's Diaspora, which includes both financial and human skills resources.
20. Allocation of aid flows should adhere more closely to the priorities in MKUKUITA and MKUZA. The priorities should be narrowed down to few strategically important priorities which should form the basis for PAF.
21. The reporting system for MKUKUTA and MKUZA should continue to consolidate the good practice of preparing one report for all constituencies.
22. Targets and performance indicators should be established through dialogue while ensuring realism of targets.
23. Negotiation of bilateral and multilateral agreements should be harmonized with the principles agreed in the Paris Declaration and JAST guided by the national development framework.
24. GOT and DPs should agree on a PAF with a few critical indicators which are implementable given the time frame and the implementation capacity.
25. Progress towards should be monitored through measurable improvements with clear benchmark measurements or mid-term targets against which progress can be measured.
26. Approved aid project funds should be channeled through the exchequer system according to the constitution of the URT (sections 135-138).

27. Formulate a clear strategy of making DPs increasingly use country systems where these are of sufficient quality and to work jointly to strengthen them where they are perceived not to be of sufficient quality. Objective criteria of the quality of country systems should be established to guide this process.
28. Categorization of the data should be adapted to the realities of existence of vertical funds and new donors so different categories of sources can be distinguished.
29. Capacity development for aid coordination should be given priority both in terms of recruitment, training and retention and utilization to ensure competence for the growing demands of aid coordination .
30. Aid should be provided in a predictable manner to enable GOT to be better able to plan and make effective use of aid. The practice of providing reliable indicative commitments of aid over a multi-year framework should be consolidated followed by timely disbursement aid in a timely according to agreed schedules.
31. Mutual accountability needs to be articulated for both partners for purposes of achieving development results.
32. The question of trust needs to be revisited with a view to taking a longer term perspective than the case has been in recent years. The bottom-line is to create a good and all inclusive partnership and renewed dialogue based on a higher level of trust.
33. The quality of preparations for dialogue should be raised, government leadership reaffirmed, government to engage actively and tactfully and officials engaged in the dialogues should be of the right competence, authority and decision-making level.
34. DPs should engage more in bringing to bear good practices from elsewhere to enrich the policy dialogue.

35. Agreement should be reached on boundaries of dialogue respecting the right of government to have state secrets which cannot be subjected to dialogue with DPs like any government does.
36. the cluster framework is still an important category of the dialogue process particularly suitable for harmonising issues that cut across sector-specific concerns. However, improvements need to be made so that they become more constructive and substantive, as is the case with sector and thematic dialogue meetings.
37. The roles of the Planning Commission and MOFEA should be articulated to ensure complementarity and synergy.
38. Consistent with the evolving global concern over development results, the dialogue should formally shift from process to performance based on results and outcomes based on specific criteria.
39. In order to get a better feel of the sensitivities in the DP capitals and their constituencies Tanzania embassies abroad should be engaged more effectively in sending feelers and engaging in dialogue with the DP capitals in the same way that ambassadors of DPs in Tanzania take up issues with the GOT.
40. Parliament needs to be more closely involved and in a more systematic manner in the dialogue on aid relationships with a view to enhancing oversight. The relevant parliamentary Committee should be engaged more actively in this regard.
41. In the dialogue between GOT and DPs, difficult areas which cannot be resolved through open and frank dialogue should be facilitated by independent studies based on jointly agreed TOR and experts to do the study such independent and objective study.
42. Where a substantial part of the activity (e.g. infrastructure investments) are of regional dimension and finances are being raised from that perspective, dialogue

at the national level should incorporate the regional dimensions of such activities to ensure consistency and comprehensiveness.

Recommendations Specific for Zanzibar

43. The new AMP system should continue to be consolidated so that ODA data capture can be improved over time by liaising more effectively with development partners and the sectors/ministries in Zanzibar.
44. The MTEF process should be consolidated with a view to improving projections of data on aid resource flows.
45. Shortcomings in the current participation of Zanzibar in the URT dialogue structures should be addressed with a view to realizing a better link between URT and Zanzibar
46. Organize for ensuring regular and structured communications and in particular, 'Core Group' meeting with a subset of donors active in Zanzibar should be revived and make sure the meetings are held regularly.
47. The Core Group should be widened to include new donors depending on their evolving importance.
48. Basket funding operating in URT should be made to cater for Zanzibar more effectively and an appropriate mechanism should be established for Zanzibar.
49. The participation of Zanzibar in SWAPs in URT dialogue structure should be strengthened and be made to accommodate more effectively the Zanzibar specificities. Participation of Zanzibar in SWAP discussions would ensure that Zanzibar makes its contribution to the shaping of the URT approach to basket funding consistent with provisions in JAST.

50. Zanzibar specific baskets should be established around broader categories of activities possibly coinciding with the three clusters of MKUZA as a starting point on the basis of whose experience improvements over time would be made.
51. MKUZA II should be disaggregated to more narrowly defined priorities and make sure that resource allocation is made according to those priorities.
52. Division of labour should be worked out in line with the guidelines contained in JAST taking into account the reality of small number of donors in Zanzibar and the small number of sectors in which donors are active.

APPENDICES

Appendix A:

Implementation of the Report: Action Matrix

Recommended Action	Responsibility
1. Projections of aid flows be improved by urging DPs to provide their projections of expected aid flows in good time within the framework of MTEF	MOFEA and DPs
2. GBS should continue to be the preferred aid modality. Teething problems should be addressed in a renewed dialogue.	GoT/DP/NSA
3. Achievements of sector coordination through SWAps should be consolidated to make sure that the improvement is more institutionalized and comprehensive inclusive of vertical funds	GOT(lead) DP
4. SWAps should be the first step in initiating coordination at the sector level and basket funding should be used initially as the funding modality to facilitate the transition from project aid to basket funding. However, the transition from basket funding to GBS should be stipulated in clear terms.	GOT (lead) DP
5. Implementation capacity bottlenecks should be addressed in capacity building programmes in every sector to allow for smoother implementation of the sector programmes.	GOT (lead) DP
6. Project aid should be confined to large scale projects and pilots as proposed by JAST. However, a clear definition of what is meant by large infrastructure project should be provided and conditions under which project aid will be accepted should be specified.	GOT (lead) DP
7. Clarification is needed to indicate circumstances under which project aid should be a transition to basket funding and specify the processes to be followed in managing the transition.	GOT lead DP
8. During the transition from project to basket or GBS project aid should be properly disclosed and monitored while ensuring that the projects are aligned to the main MKUKUTA and MKUZA goals and objectives.	GOT and DP
9. Project financing should be maintained within GBS whereby specific project funding is ring-fenced with a view to reducing the divergence between approved funding and disbursed funds for specific project implementation.	GOT and DP
10. Vertical funds should be reckoned with as a part of the new aid architecture and innovations should be applied to manage	GOT and DP

Recommended Action	Responsibility
<i>these resources in a manner which is consistent with JAST.</i>	
11. <i>Vertical Funds should be subjected to further investigation to establish its potential benefits and distortions that may be created by these funds for Tanzania. The outcome should be a policy developed to maximise benefits and manage distortions.</i>	GOT and DP
12. <i>Where emerging donors are present and even if they are not always active in Tanzania, they should be engaged at the country level dialogue. The activities of the new donors should be drawn closer to aligning with country systems and policies</i>	GOT Lead, New donors
13. <i>Cooperation (and dialogue) with the new donors should be regarded as essential in the implementation of MKUKUTA and MKUZA. The aid strategic partnership with the new donors should be clearly shown in JAST-II.</i>	GOT, DPs , New donors
14. <i>The first priority is to implement a pay reform with the aim of making it attractive for skilled and qualified Tanzanians to work in the public sector. A study on good practices in attracting and retaining skilled personnel should be made and its results implemented;</i>	GOT, DPs
15. <i>DPs should continue to reduce the number of separately managed projects in order to reduce undue demand for project advisors and staff to run parallel processes.</i>	DPs
16. <i>Priority should be given to National Technical Advisors where the right expertise is available but the principles of ownership and alignment should be observed in line with JAST</i>	GOT, DPs
17. <i>Draw up a more realistic picture of the different roles NTA should be expected to play: a role that can combine gap filling with capacity development to help keep systems within an organisation working, while bringing in expertise that can introduce better ways and approaches to working, new systems and procedures and demonstrate good work practices and work ethics;</i>	GOT, DPs

Recommended Action	Responsibility
18. Pooling of TC funds should be used to promote capacity development and national procurement should increasingly be used for mobilising expertise under conditions of clear roles and responsibilities.	GOT, DPs
19. Clarify the position vis-à-vis mobilization of resources from Tanzania's Diaspora, which includes both financial and human skills resources.	GOT
20. Allocation of aid flows should adhere more closely to the priorities in MKUKUTA and MKUZA. The priorities should be narrowed down to few strategically important priorities which should form the basis for PAF.	GOT, DPs
21. The reporting system for MKUKUTA and MKUZA should continue to consolidate the good practice of preparing one report for all constituencies.	GOT, DPs
22. Targets and performance indicators should be established through dialogue while ensuring realism of targets.	GOT, DPs
23. Negotiation of bilateral and multilateral agreements should be harmonized with the principles agreed in the Paris Declaration and JAST guided by the national development framework..	GOT, DPs
24. GOT and DPs should agree on a PAF with a few critical indicators which are implementable given the time frame and the implementation capacity.	GOT, DPs
25. Progress towards development results should be monitored through measurable improvements with clear benchmark measurements against which progress can be measured. .	GOT, DPs
26. Approved aid project funds should be channeled through the exchequer system according to the constitution of the URT (sections 135-138).	GOT, DPs
27. Formulate a clear strategy of making DPs increasingly use country systems where these are of sufficient quality and to work jointly to strengthen them where they are perceived not to be of sufficient quality. Objective criteria of the quality of country systems should established to guide this process	GOT, DPs
28. Categorization of the data should be adapted to the realities	GOT, DPs

Recommended Action	Responsibility
<i>of existence of vertical funds and new donors so different categories of sources can be distinguished.</i>	
29. <i>Capacity development for aid coordination should be given priority both in terms of recruitment, training and retention and utilization to ensure competence for the growing demands of aid coordination</i>	GOT
30. <i>Aid should be provided in a predictable manner to enable GOT to be better able to plan and make effective use of aid. The practice of providing reliable indicative commitments of aid over a multi-year framework should be consolidated followed by timely disbursement aid in a timely according to agreed schedules.</i>	DPs
31. <i>Mutual accountability needs to be articulated for both partners for purposes of achieving development results.</i>	GOT, DPs
32. <i>The question of trust needs to be revisited with a view to taking a longer term perspective than the case has been in recent years. The bottom-line is to create a good and all inclusive partnership and renewed dialogue based on a higher level of trust.</i>	GOT, DPs
33. <i>The quality of preparations for dialogue should be raised, government leadership reaffirmed, government to engage actively and tactfully and officials engaged in the dialogues should be of the right competence, authority and decision-making level.</i>	GOT
34. <i>DPs should engage more in bringing to bear good practices from elsewhere to enrich the policy dialogue.</i>	DPs
35. <i>Agreement should be reached on boundaries of dialogue respecting the right of government to have state secrets which cannot be subjected to dialogue with DPs like any government does.</i>	GOT, DPs
36. <i>The cluster framework is still an important category of the dialogue process particularly suitable for harmonising issues that cut across sector-specific concerns. However, improvements need to made so that they become more</i>	GOT, DPs

Recommended Action	Responsibility
<i>constructive and substantive, as is the case with sector and thematic dialogue meetings.</i>	
<i>37. The roles of the Planning Commission and MOFEA should be articulated to ensure complementarity and synergy..</i>	GOT
<i>38. Consistent with the evolving global concern over development results, the dialogue should formally shift from process to performance based on results and outcomes based on specific criteria.</i>	GOT,DPs
<i>39. In order to get a better feel of the sensitivities in the DP capitals and their constituencies Tanzania embassies abroad should be engaged more effectively in sending feelers and engaging in dialogue with the DP capitals in the same way that ambassadors of DPs in Tanzania take up issues with the GOT.</i>	GOT
<i>40. Parliament needs to be more closely involved and in a more systematic manner in the dialogue on aid relationships with a view to enhancing oversight. The relevant parliamentary Committee should be engaged more actively in this regard.</i>	GOT
<i>41. In the dialogue between GOT and DPs, difficult areas which cannot be resolved through open and frank dialogue should be facilitated by independent studies based on jointly agreed TOR and experts to do the study such independent and objective study.</i>	GOT, DPs
<i>42. Where a substantial part of the activity (e.g. infrastructure investments) are of regional dimension and finances are being raised from that perspective, dialogue at the national level should incorporated the regional dimensions of such activities to ensure consistency and comprehensiveness.</i>	GOT, DPs
Recommendations Specific to Zanzibar	
<i>43. The new AMP system should continue to be</i>	RGZ, DPs

Recommended Action	Responsibility
consolidated so that ODA data capture can be improved over time by liaising more effectively with development partners and the sectors/ministries in Zanzibar.	
44. The MTEF process should be consolidated with a view to improving projections of data on aid resource flows.	RGZ, DPs
45. Shortcomings in the current participation of Zanzibar in the URT dialogue structures should be addressed with a view to realizing a better link between URT and Zanzibar	GOT, RGZ
46. Organize for ensuring regular and structured communications and in particular, 'Core Group' meeting with a subset of donors active in Zanzibar should be revived and make sure the meetings are held regularly.	RGZ, DPs
47. The Core Group should be widened to include new donors depending on their evolving importance.	RGZ
48. Basket funding operating in URT should be made to cater for Zanzibar more effectively and an appropriate mechanism should be established for Zanzibar.	GOT, RGZ, DPs
49. The participation of Zanzibar in SWAPs in URT dialogue structure should be strengthened and be made to accommodate more effectively the Zanzibar specificities. Participation of Zanzibar in SWAP discussions would ensure that Zanzibar makes its contribution to the shaping of the URT approach to basket funding consistent with provisions ion JAST.	GOT, RGZ, DPs
50. Zanzibar specific baskets should be established around broader categories of activities possibly coinciding with the three clusters of MKUZA as a starting point on the basis of whose experience improvements over time would be made.	RGZ, DPs
51. MKUZA II should be disaggregated to more narrowly defined priorities and make sure that resource allocation is made according to those priorities.	RGZ

Recommended Action	Responsibility
52. Division of labour should be worked out in line with the guidelines contained in JAST taking into account the reality of small number of donors in Zanzibar and the small number of sectors in which donors are active.	RGZ, DPs

Appendix B

Terms of Reference

Assessment of External Resources Flows

As part of the MKUKUTA/MKUZA Review

Background:

1. The Government of Tanzania has made progress in fostering close relations between Government and its development partners, inter alia through implementing the Tanzania Assistance Strategy (TAS) FY2006/7-FY2009/10. JAST is a medium-term framework for managing development cooperation between the Government and Development Partners to achieve national development and poverty reduction goals.

Assignment

2. With the MKUKUTA/MKUZA due to expire on 30th June, 2010, Government has launched its Review to assess achievements to date and identify challenges feeding into the next economic growth and poverty reduction strategies. The Review process raises several questions related to external finance in support of the implementation of the MKUKUTA/MKUZA. The following issues have been singled out for special study which the consultant is tasked to carry out::

- the assessment of ODA performance that would fill a knowledge gap and permit more adequately obtaining a grasp of the evolution of aid and its impact over the 2005/6-2008/9 period, by getting a fix on the evolution in the modal and sector composition of aid and of the actors involved in aid delivery. The latter should reveal

trends in major aid modes, i.e. GBS, sector aid, project financing and technical assistance, as well as in the sector composition of aid. It should also throw light on issues involving the timely absorption of aid which appears to have become a significant problem in the area of external project financing.

- the data gathering and analysis should cover aid performance in a macro-economic, balance-of-payments and fiscal context. Trends in macro-economic aid dependency (inter alia, ODA as a share in national income and of investment, contrasting this with other major recipient countries) should be analysed. So should aid's contribution to reducing the external financial constraint to Tanzania's development by identifying and analysing the performance of aid as a share of external resource inflows (ODA, other official financing, export earnings, NGO inflows, remittances and FDI) and as a percentage of import payments.

- the evolution in the fiscal dependency on aid (including trends in aid that finances recurrent and capital expenditures) as well as on off-budget aid should be analysed as well, and trends in aid from non-DAC donors should also be identified.

- the IMF Article IV consultations report reveals that problems are emerging in the area of aid absorption and delivery. Instead of going up, aid disbursements may have been coming down recently. Additionally, there are signs that the earlier-welcomed rising trend in GBS provision may be reversing. Aid predictability may well be getting more problematic and vulnerability aspects are also coming to the fore. Getting a grip on these matters is needed for the elaboration of the financing plan for Mkukuta/Mkuza 2 and to ensure that timely decisions can be taken to ensure that a possibly-needed aid scaling up of aid can occur by identifying those issues that stand in the way of better or more timely provision and absorption of aid. The trend in the diversification of aid providers will also need to be examined. Alternatively, reducing aid dependency under Mkukuta/Mkuza 2 raises a set of different issues and would, if pursued as an objective, put in question the sustainability of high public investment levels. The results of this data gathering exercise and analysis would, of course, help inform the discussion between Government and its Development Partners on aid effectiveness and partnership.

- it is expected that the results of the ODA performance analysis would inform the effectiveness analysis and discussions with key stakeholders. But it would also go beyond this and would have conclusions with respect to external assistance needs during the Mkukuta/Mkuza period and donor preparedness to meet these needs. Thus, the consultant should address “forward-looking ODA perspectives in terms of priority ODA allocation and scaling up with ultimate intentions on reduction of aid dependency”. Additionally, the consultant is expected to come forward on the articulation of an external assistance policy of Government as well as an external financing plan for Mkukuta/Mkuza II.

- the effectiveness of General Budget Support (GBS), Basket Funds and other forms of assistance, i.e. performance of aid modality, aid instruments, and mix of instruments as well as effectiveness on transaction costs’ should also be examined in the context of several other studies going forward.

Objectives/Key questions

3. The key objective of the assessment is to provide an answer to how external finance/ODA supported the implementation of the MKUKUTA/MKUZA (aid modalities, volume, allocation, and aid delivery) and how it can most appropriately continue doing so under Mkukuta/Mkuza II.

Scope of Assessment:

4. The following detailed aspects will need to be addressed through this assessment:

- a) Effectiveness of GBS, Basket Funds, and project funding in terms of their contribution to the budget process, MTEFs and related dialogue; More detailed look at the budget deviations, how various aid modalities had been integrated into and supported the budget process and were effective in contributing to the Mkukuta/Mkuza priorities, whether the budget deviations and budget performance were influenced by the operational procedures/aspects of different aid modalities, assessment of disbursement behavior;
- b) Carrying out a Survey of Off-Budget Financing, involving analysis of off-budget aid provision and utilization since 2005, including its volume, sectoral

composition and adherence to disbursement schedules. As to the latter the identification of bottlenecks to disbursements merits special highlight.

- c) Assessment of ODA allocations (volume and sector allocation) and its alignment to MKUKUTA/MKUZA priorities and forward-looking ODA perspectives in terms of priority ODA allocation and scaling up, with ultimate intentions on eventual reduction of aid dependency.
- d) Carrying out a Survey of “non-DPG external financing flows” since 2005, giving special emphasis to provision of aid/external financing by such “new” development partners as China, India, Korea and others, as well as to the inflow of resources from international NGOs.

5. Based on critical analysis/assessment, the consultant will make recommendations with regard to the key elements related to the external finance contribution and support to the national efforts of meeting the poverty reduction goals and objectives, including the forward-looking ODA allocation and prioritization, aid delivery mechanisms particularly in support of the national budget process and MTEF, improved predictability, and development partnership framework in general.

Work Execution

6. The consultant will work as part of a Team which will assess aid effectiveness matters in general. The work begins in late September, 2009 and is expected to last through end-November 2009.

Management Arrangements:

7. Economic Social Research Foundation in Dar-es-Salaam (ESRF) will provide a Team as well as research assistance, and all day-to-day administrative support to the Team of which the consultant will be part.

8. The Consultant is expected to have the following skills, capabilities and competencies:

- Strong conceptual and analytical skills, with ability to think strategically and rapidly analyze and integrate diverse information from varied sources into conclusions and recommendations.

- International experience and strong knowledge or familiarity with aid effectiveness issues and initiative on aid management, coordination, harmonization and development cooperation;
- International experience in analyzing ODA performance issues;
- Strong knowledge of external financing and balance-of-payments management issues enabling linkages between ODA provision and external financial viability issues.
- Proven ability to interact competently with senior Government officials, development partners and other stakeholders in the process of development management.

Appendix C

Officials Met/Contacted

1. Ramadhani Khijjah- Permanent Secretary- MOFEA
2. M. Magonya , Commissioner External Finance Division (EFD) - (with whole team of EFD Officers)
3. Peniel Lyimo- Permanent Secretary PMO
4. Ms Philipina Malisa, Assistant Commissioner Aid Coordination
5. Allicem Matembele, Senior Finance Officer, Aid Coordination Unit EFD MOFEA
6. Ms Neema Mkwizu, Finance Officer Aid Coordination Unit EFD, MOFEA
7. Paschal Melkiory, Ag. Chief Accountant, Office of Accountant Genera- MOFEA
8. Kingu Korongo-Director Policy Analysis, MOFEA
9. S. Tomoko, TA Aid Coordination Unit EFD –MOFEA
10. J.M. Msina, Finance Officer, EFD- MOFEA
11. S. Sagday, Assistant Director, Poverty Eradication Division, MOFEA
12. Mark Temu, Principal Economist MOFEA
13. Andambike Mololo, Senior Economist, MOFEA
14. Mukajungu kamuzora, Economist, MOFEA
15. Dr Faisal Issa, Director, Human Resource Development Division
16. Yuko Suzuki, Secretary to the DPG and Aid Coordination Specialist, UNDP
17. Prof. Benno Ndulu, Governor BOT

18. S. Moyo, AfDB Resident Representative
19. Nathalie Franken, Economist AfDB
20. Oswald Leo, Economist AfDB
21. Bengi Issa Director of Administration, Finance and Resource Mobilization TACAIDS
22. Bwijo A. Bwijo, Global Fund Coordinator, TACAIDS
23. Joint GOT/DPG Secretariat Meeting of 15 January, 2010
24. Policy Forum Workshop of 18 January 2010 with 55 participating CSO representatives and individuals
25. Semkae Kilonzo, Coordinator Policy Forum
26. Florence Katabazi, and Immaculata Komba, Programme Officers, TENMET
27. Esther Mongi Policy Analyst World Vision
28. Rita Kahurananga, Programme Officer, World Vision
29. Dennis Rweyemamu, Senior Researcher REPOA.
30. Daniel Sanga, Researcher REPOA
31. Dr. Hickmani- MOFEA Zanzibar
32. Mr. Ameir H. Sheha- Commissioner of External Finance, MOFREA Zanzibar.
33. Mr. Ranil Dissanayake- MOFEA Zanzibar
34. Dr. Philip Mpango- then Deputy PS MOFEA Dar (Currently Executive Secretary, Planning Commission)
35. Dr. Edward Hosea- DG PCCB
36. Pieter Dorst – Embassy of The Netherlands
37. Robert Cunnane, Mission Director, USAID
38. Tom Crubaugh, Programme Officer, USAID
39. Yasunori Nakamura, Advisor for Economic Affairs, Embassy of Japan
40. Makoto Honda, First Secretary, Embassy of Japan
41. Katsuta Yukihide, Chief Representative, JICA
42. Carin Salerno, Head of Cooperation, Swiss Development Cooperation
43. Jacques Rader, DPG Health Expert, Deputy Head of Cooperation, Switzerland
44. Enrico Strampelli, Head of Cooperation, European Commission
45. Erik Korsgren, Head of Cooperation, Embassy of Sweden
46. Chiyo Kanda, World Bank
47. Gisela Habel- Head Division for Development Cooperation
48. Gianluca Rampolla, Senior Advisor, UN Resident Coordinator's Office
49. Niels Knudsen, DPG Secretariat/UNDP
50. Hendrik van der Heijden, Senior International Consultant for the MKUKUTA and MKUZA Review

51. Jens Clausen- Consultant GBS Secretariat
52. David Robinson, IMF
53. Rene van Nes, European Commission
54. Anders Berlin, Economist Embassy of –Sweden
55. David Welsh, Head of Cooperation –DFID
56. Staffan Herrström, Ambassador, Embassy of Sweden
57. Juhani Toivonen, Ambassador of Finland
58. Heikki Haili. HoC Embassy of Finland
59. Albert Bruun Birnbaum, First Secretary, Embassy of Denmark
60. Pär Liljert, Chief of Mission, International Organisation for Migration
61. Soyeon Shin KOICA Deputy Resrep Tanzania Office

REFERENCES:

1. MKUKUTA ANNUAL IMPLEMENTATION REPORT 2007/08 “*STAYING ON COURSE*” MOEFA October, 2008
2. OECD/DAC Working Party on Aid Effectiveness and Donor Practices “Emerging Donors- How to Engage Them” -DCD/DAC/EFF(2006)9
3. Briefing From the Delegation from the China Development Bank (2009)
4. GBS Annual Review 2009
5. OECD Country Survey/Review 2009- Tanzania Country Chapter
6. IMG2002 and IMG 2005 Reports
7. Joint External Evaluation of the Health Sector in Tanzania: 1999 to 2006
8. Joint Health Sector Review Report 2009
9. The Power of Society (WP-1): Seizing and Stretching Participatory Space.....in Tanzania’s Policy Processes by *Hermine Engel* (January 2010)
10. DIIS Working Paper 2009:13: Strategies for Growth and Poverty Reduction: Has Tanzania’s Second PRSP Influenced Implementation? By Dennis Rweyemamu
11. Scoping Studies on China-Africa Economic Relations: The Case of Tanzania By H.P.B. Moshi & J.M. Mtui Nairobi *March 2008*
12. Friedrich-Ebert-Stiftung (FES) Briefing Paper February 2006 New Powers for Global Change? Challenges for the International Development Cooperation : The Case of India by *MATTHIAS JOBELIUS*)
13. The Sunday Citizen newspaper article by Chris Alden and Riaan Meyer “ Unveiling the diversity of Chinese finance in Africa”
14. URT/ MID: 10 Year Transport Sector Investment Programme, Main Report , April 2008
15. URT April 2008 MID Report on TSIP
16. Ministry of Health and Social Welfare; Public Expenditure Review (PER) 2008
17. Ministry of Health and Social Welfare; Public Expenditure Review (PER) 2009
18. 2008 Budget Speech by Minister of Infrastructure Development
19. Challenges of African Growth: OPPORTUNITIES, CONSTRAINTS AND STRATEGIC DIRECTIONS By *Benno Ndulu* with others (2007)
20. Government Briefing paper to the Delegation from the China Development in August 2008.
21. RGOZ: Aid to Zanzibar 2006/07 – 2008/09: An Analysis of Initial Data Collected for the Aid Management Platform.. Ministry of Finance and Economic Affairs. Revolutionary Government of Zanzibar. February 2010.

22. RGOZ. Aid Management in Zanzibar. MOFEA, Zanzibar, Draft of March 2010.
23. RGOZ: Zanzibar Public Financial Management Performance Report. MOFEA. August 2010.
24. Robert Hawkins and Innocent Makundi: Independent 2008/09 review of the PFMRP, Tanzania, December 2009.
25. Bertil Oden and Lennart Wohlgemuth: Where is the Paris Agenda Heading? 2010