

**ECONOMIC AND SOCIAL RESEARCH FOUNDATION
(ESRF)**



**ENHANCING AID RELATIONSHIPS IN TANZANIA:
REPORT OF THE INDEPENDENT MONITORING GROUP**

Prepared by the Independent Monitoring Group

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1.0 INTRODUCTION

1.1 Background to the report

This report is an outcome of a substantial history of reviews which have examined the relationships between the Government of Tanzania (GoT) and aid donors conducted by observers independent of both sides. Relations between the two sides deteriorated to a low level in the early 1990s. In order to address this situation an independent group of experts led by Professor Gerald K. Helleiner was appointed to study the situation and make recommendations. The study was completed in 1995 and subsequent discussions between government and donors were based on that report. Based on the Helleiner report and following a change of government, concerted efforts involving dialogue between the government and donors were initiated in 1996. This was followed by an agreement in January 1997 between the GoT and her development partners to jointly set out a programme to redefine the terms of their development co-operation. The result was a set of 'agreed notes' (in the form of 18 points) stating, among other things, that there was a need to ensure enhanced Government leadership in development programming, increased transparency, accountability and efficiency in aid delivery. The elaboration of a framework for co-operation culminated in the preparation of Tanzania Assistance Strategy (TAS) from 1998/99, finally published in 2002. TAS is meant to be a framework for partnership which would also define the role of external resources for development.

Following the GOT-donor agreement of January 1997, it was agreed that developments in implementing the agreed points would be monitored and reports on progress would be presented to the meetings of the Consultative Group in Tanzania. It is in this context that it was agreed to ask Professor Helleiner to present evaluation reports to CG meetings in December 1997, March 1999 and May 2000. At the latter meeting, it was agreed that the monitoring activity was beneficial but needed to be institutionalised. As a result, in February 2002, the GOT and donors jointly appointed the Independent Monitoring Group (IMG) to review progress in aid relationships and report to the next CG meeting.

Our work was undertaken during the course of 2002, under the administrative auspices of the Economic and Social Research Foundation (ESRF), Dar es Salaam. The group as a whole met twice, in March and June 2002, but locally-based members of the group undertook further work between those dates and thereafter. There were formal terms of reference which were agreed between GOT and donors after several months of negotiations (Attached in Appendix I). On the basis of the TOR the ESRF made a proposal upon which our work was based, and which is set out in Appendix II. This indicated the desirability of assessing progress in GoT-donor relations, especially since the 1999 and 2000 Helleiner reports, establishing a new baseline in the light of recent developments in Tanzania, developing performance indicators on the part of government and donors, and identifying obstacles and making recommendations for overcoming these.

The Group consisted of:

- 1) Professor Samuel M. Wangwe (Chair)
- 2) Mr. Goran Andersson
- 3) Professor Rolf Hofmeier
- 4) Professor Tony Killick
- 5) Ambassador Fadhili Mbagha
- 6) Mr. Emmanuel Tumusiime Mutebile:¹

In addition, the group was assisted by inputs from Dr. Stergamena Tax and Mr. Dennis Rweyemamu of the ESRF.

In addition to the study of relevant background materials, both as related to Tanzania and the wider literature, the group's approach was based on a large number of interviews with officials of departments of government and all official donors with substantial aid programmes in the country, bilateral and multilateral. We also interviewed individual representatives from the private sector and of various civil society organisations in addition to information obtained in special workshops which were organized for each of the two groups. A complete list of those consulted is set out in Appendix III. We also benefited by being able to attend meetings of the local DAC and of the Public Expenditure Review (PER), as well as other relevant gatherings held during our work. The Tanzania based members also had the opportunity to participate in the Joint GOT-Donors Sector Review Meeting held on 30th August 2002. We were fortunate in being able to draw upon the wealth of related work already undertaken by the staff of ESRF. Everyone was extremely generous to us in sparing time out of their busy working lives and in the frankness with which they offered their views. We are very grateful to them and would especially like to record our thanks to Mr. Philip Courtnadge of the UNDP, who greatly assisted ESRF, and us and provided us with invaluable briefings.

Our report is structured as follows. Section II describes and assesses the situation as we observed it. We found it considerably improved over earlier periods so Section III presents what we consider to have been the chief factors responsible for bringing about that improvement. There remains much scope for further improvements, however, and Sections IV and V therefore examine areas for further improvement, making recommendations addressed, respectively, to the GoT and the donors. Section VI takes up the issue of performance monitoring and Section VII summarises the various recommendations made in the report.

¹Mr. Emmanuel Tumusiime Mutebile was appointed as a member of the group but, in the event, his responsibilities as Governor of the Bank of Uganda prevented him from participating in the Group's work although he was able to make inputs by way of comments in the final stages of the report.

As with the original Helleiner report, this report is unanimous, with each group member taking full responsibility for the entire text. In extremely summary terms, our main messages are described in the next few paragraphs.

Overview of the Report's Basic Message

- *GOT-Donor Relations have improved.* By comparison with 1995 and even since as recently as the Helleiner report of 2000, donor-GoT relations are much improved. The donors now have greater trust in GOT and they have responded in various ways to improve their own policies and practices.
- *There is still room for improvement.* The improving trend should not lead to complacency, for there is still much room for improvement.
 - (i) The GOT should reinforce donor confidence in it by measures to increase transparency and accountability, to strengthen public sector capabilities, to reduce long-term aid dependency, and to strengthen channels of dialogue. It should go further in insisting on ownership and in taking the lead in co-ordination and harmonisation of donor policies and practices, though the Tanzania Assistance Strategy (TAS). While it is a very welcome initiative of much potential value, the TAS could and should go much further than it does to assert Tanzanian ownership and to provide leadership in the development of relations with donors.
 - (ii) Donors should go further with measures to strengthen partnership relationships and reduce transaction costs, including further moves in the direction of pooled resources and common arrangements for dialogue and monitoring, working more through the exchequer system, reducing tying and strengthening co-ordination.
 - (iii) For both sides, there is a need to rationalise the plethora of dialogue mechanisms. Here too the GOT should take the lead, aligning processes more around the budget cycle and focusing efforts more around the PRSP and further developed budgetary processes.
- *Future review arrangements should be essentially qualitative in some circles preference has been expressed in favour of moving in the direction of quantitative indicators, cover the government as well as donors and be more focused.* Donor and GoT performance is too multi-faceted and qualitative for it to be fruitful to place large reliance on quantified indicators, although some would be useful. There should be periodic independent review exercises, perhaps with a more precise focus, e.g. examining the workings of SWAps, or the position in the Districts, or in Zanzibar. Independent monitoring groups could usefully be replicated in other countries.

2.0 THE PRESENT SITUATION

It is perhaps useful to assess the situation as we found it in 2002 against two benchmarks: (a) the situation as described in the 1995 Helleiner report and (b) as described more recently in his 1999 and 2000 reports. By either comparison, but especially the first, we are in no doubt that major improvements have occurred. Indeed, we think the present state of GoT-donor relations is matched in only a few other of the aid-dependent states of Africa. As described below, this improvement has a number of dimensions but its improved condition was echoed in our conversations by statements of officials on both the GoT and donors sides. It is also reflected in a “Statement of Bilateral and Multilateral Development Partners” prepared for the Consultative Group meeting in September 2001, who wished,

...to acknowledge the great strides made by the Government of Tanzania in fostering a closer relationship with its development partners. Government has worked hard to build a relationship based on trust and mutual understanding and this has facilitated a dialogue designed to make development assistance more effective...

We do not believe these words were mere diplomatic pleasantries. Many donor representatives remarked to us on improvements they had observed, while making clear that they saw plenty of scope for further progress. Donor satisfaction was mirrored on the GoT side, with acknowledgement by officials of the extent to which donors had responded to the government's efforts by various changes in policy and practice designed to raise the value of aid and reduce the transactions costs associated with it. Here too, however, government officials observed that not all donors had been equally responsive and drew attention to various areas in which further improvements could be made.

Another historical point of comparison is with the situation described in the 1999 Helleiner report. This was taken up in the TAS (2002:1-2), which drew attention to the following problems:

- Separate and parallel donor systems and procedures on procurement, recruitment and staff remuneration, accounting, reporting formats, monitoring and management of projects, placing heavy burdens on GoT capacities.
- Fragmented and uncoordinated project support, reducing efficiency and effectiveness.
- Management and disbursement of resources outside the GoT exchequer system, undermining transparency and accountability.

- Heavy and costly dependence on technical assistance consultants in executing projects.
- Unsynchronised country assistance strategies
- Inadequate GoT capacity.

While all these problems persist today, we believe that in almost each particular problem it is possible to point to an improving trend. The following paragraphs describe various of the ways in which we observe progress to have been made in seven notable areas i.e. improved channels of dialogue, the trend away from project aid, the development of sector-wide approaches, technical assistance has become more demand driven, procurement tying is on the decline, reporting of aid flows is improving and Consultative Group Meetings have become more participative.

Improved channels of dialogue.

The development of improved channels of dialogue between the GoT and donors is one important aspect. This has occurred at what we can call the 'macro' level and also within some of the sectors. This reflects an increased openness of government, with improved lines of communication not only with donors but more widely. We would particularly single out the way in which the modalities of the Public Expenditure Review (PER) have been developed and broadened in recent years, so that today Tanzania can boast an almost uniquely open budgetary process. Accountability and transparency have been improved through the PER/MTEF process, in which donors, civil society organisations, the private sector and individual citizens can have their say concerning budgetary priorities, in a process which reportedly really impacts on outcomes by feeding into the Budget Guidelines issued to line ministries and other spending agencies. One of the features here is that the GoT has been able to reconcile this type of open budgetary process with overall fiscal prudence.

The development of the PER has undoubtedly increased the extent to which donors, along with other stakeholders, believe they can have inputs into policy formation. For those participating in it, the same is true of the modalities which have grown up around the Poverty Reduction Strategy (PRS) and the mechanisms associated with the arrangements for Poverty Reduction Budget Support (PRBS). The trend towards programme aid was recognised as creating a need for improving the modalities for policy dialogue with the government. For this purpose, there are quarterly meetings of a PRBS Steering Committee, as well as more specialised sub-groups. Most recently, a Performance Assessment Framework (PAF) has been formally agreed between the GoT and PRBS donors, intended to provide a common and systematic system for assessing progress towards agreed objectives and implementation of agreed measures. It is also intended to facilitate the setting of mutually accepted priorities.

In addition to these avenues for dialogue, mention should be made of the approximately annual Consultative Group meetings (now somewhat less pivotal than formerly), joint GoT/DAC quarterly review meetings, annual bilateral review meetings and quarterly sector-level meetings with interested donors. There is also the recently adopted Tanzania Assistance Strategy (TAS). It is intended to provide a three-year strategic framework for dialogue, which brings together the various strands of policy and priority setting, and which is subject to annual monitoring. A draft action plan has been prepared by GoT and shared with the donors. Further institutional arrangements are being put in place for the implementation of TAS. For instance, the Joint TAS/Harmonization Group has been formed and will be supported by Joint TAS/Harmonization Secretariat. This arrangement will help to guide TAS implementation and harmonization issues and provide a more institutionalised technical communication channel between GOT and DAC. The mechanism for TAS implementation continue to be worked out.

The point here, as elsewhere in this section, is not to suggest that the situation belongs in some ideal world - we turn to shortcomings later - but to draw attention to real improvements that have been achieved over time.

The trend away from project aid

The extract from the TAS quoted earlier placed heavy emphasis on the high cost and limited effectiveness of project-based assistance. It is relevant to note, therefore, that recent years have seen a decisive shift in the composition of aid in favour of programme- and policy-based support. We have just mentioned the PRBS and will shortly draw attention to the parallel growth of sector-wide programme support. In 1998 eight European donor countries agreed to contribute to a Multilateral Debt Relief Fund to help Tanzania meet its debt service obligations, while the World Bank and the IMF were working with GOT to meet the conditions of debt relief under the HIPC initiative. Upon review of the MDF in 2000 it was agreed to shift from debt relief to general budget support, and the MDF was transformed into the PRBS scheme.

UNDP data show the amount of total ODA devoted to economic management (according to UNDP categories) to have risen from \$47 million in 1995 to \$232 million in 1999, or from 5.7% to 23.4% of the total. UNDP officials say that these figures have expanded massively since 1999 and this is borne out by World Bank estimates which show programme support to have gone up from 1.8% of GDP in FY1999 to 2.8% in FY2001 and a forecast 4.4% for FY2002. Among the bilateral donors, one of the largest, the UK, is even switching its sector-wide programme aid to general contributions to the PRBS and donors generally resistant to the principle of budget support have nonetheless been moving in that direction in Tanzania.

While we later argue the case for a phased transition from project-based to programmatic assistance, we are in no doubt of the beneficial effects of the trend just

described for the ownership and efficacy of the monies provided and we therefore view this shift in a favourable light.

The development of sector-wide approaches

We similarly see the development of sector-wide modalities of support through sector-wide approaches (SWAPs) as a positive development. This has been most fully developed in health but we were encouraged to be told of the emergence of nascent SWAPs dealing with education and local government reform. Here again, none of these initiatives is without problems - and their coverage is still limited - but each has the potential of improving the level of dialogue and of reducing the large costs associated with purely project-based approaches. At their best, SWAPs provide a means of providing external support within a transparent, coherent, prioritised and monitored programme of action and budget. Typically, such approaches are based on a comprehensive Sectoral Plan, drawn out of a Programme of Work developed in collaboration with all partners, with Sectoral Strategies defining the roles of the public and private sectors, donors, NGOs and communities in relation to financing and delivery of services. The health sector having started earlier, has progressed farther than other sectors. While it is the most advanced sector in respect of SWAPs, we heard several criticisms of it (to which we return later), the Ministry of Health is in no doubt that the health basket arrangement has reduced its financing uncertainties and provided an appropriate forum for policy discussions with donors and other stakeholders.

In moving towards forms of programme-based collective action at the macro and sectoral levels various donors have shown considerable flexibility, sometimes in the face of real institutional obstacles. As a recent review of the health sector SWAP concludes, these obstacles tend to fall away if, *for policy reasons*, donors become convinced of the desirability of collective action, although some are more flexible than others. Thus German representatives stated that their country's initial decision to participate in Tanzania's health SWAP was the first time it had joined such a scheme in any country, just as was Japan's decision to join the PRBS.

Technical assistance has been changing

In his 2000 report Helleiner was particularly critical of past approaches to technical assistance oriented around the importation of relatively long-term expatriate 'experts', often at donor insistence, effectively undertaking line responsibilities, commonly 'tied' to expertise from the donor country, provided in connection with the implementation of donor projects and often suspected of owing a primary loyalty to the donor employing them rather than to the Tanzanian authorities. We share the view that this modality has generally been ineffective, with low sustainability and high-cost, and may well have actually undermined local capacity-creation. In our enquiries, however, it became clear that among virtually all donors there has been a decline in the use of long term expatriate experts in recent years in favour of shorter-term technical assistance. Donors claim now that their TA is more

demand-driven, that they pay more attention the importance of Tanzanian ownership and give their efforts a greater orientation towards capacity building within the country. Several donors reported such a trend to us, although some had gone much further than others, not all viewed the trend as desirable and some within the GoT disputed how far the claimed changes had gone. To the extent that they have occurred, the changes are a result of the shift to programme modalities, reported above, but are also a result of growing awareness of the limitations of past approaches and a desire to reflect best-practice in country assistance programmes.

In the context of PER/MTEF and PRSP consultative mechanisms and working groups there has been some shift towards pooling of technical assistance, open discussion and agreement on terms of reference for technical assistance personnel and their sourcing. Pooling of TA resources is, for example, practised in the Local Government Reform Programme.

Procurement tying is also in decline

Although there is still too much procurement-tying among bilateral donors, this is another area in which the trend appears to be a desirable one. Here again, the shift to programme support has been strongly influential. There is, of course, no such tying within the arrangements for the PRBS or with the provision of debt relief under the terms of the HIPC scheme. The situation is less clear-cut in the case of SWAps, where there is commonly an uneasy coexistence of traditional discrete project-based aid and resource pooling. Nonetheless, the sectoral pooling arrangements have the effect of reducing tying. For instance, Health Basket Fund partners have set up a joint procurement arrangement which is not tied to any single donor. While previously the Ministry of Health (MOH) provided a list of items needed and donors purchased and supplied the items, in 2002 the MOH was able to advertise internationally for its requirements.

Reporting on aid flows is improving and more is going through the budget

It has been a long-standing complaint in Tanzania, as elsewhere, that donors have been very reluctant to provide the Ministry of Finance (MoF) with timely and accurate data on assistance provided, much of which, of course, has remained outside the normal budgetary procedures. There have been particularly large problems with regard to project reporting and technical assistance provisions.

The situation remains highly unsatisfactory, with the PER documentation estimating that in 1999/2000 only 16% of aid was recorded in the government accounts. However, here too we have observed improving trends. Once again, the influence of the shift to programme support has been large, for, by definition since this is budget aid, all such assistance is structured to pass through the exchequer and reporting on this has proved much less problematical than in the case of project aid and technical assistance. Even with regard to project assistance, the reporting situation has been improved by the promulgation by the MoF of a Common Reporting Format. In

addition, the government, through the PER/MTEF process initiated a comprehensive data collection exercise for projections during the PER 2001. This data was recorded in the statistical Aid Flows Database in the Ministry of Finance. Issues of reporting of disbursements and capturing disbursements in IMFS are currently being addressed by the MoF and development partners. Although positive developments here are quite recent, it appears that donor compliance with this initiative has been encouraging, even with respect to extra-budgetary projects. One indicator of this compliance is the increase in disclosure of project assistance to \$600 million in 2002 up from \$400 million in 2001.

Reporting on technical assistance remains a weakness, however, with some donors not providing the government with the true financial cost of their TA activities. There also remain large but hard-to-estimate gaps between figures for commitments and for disbursements; and donors are reluctant to provide projections of future flows for fear of raising expectations. Moreover, the point was made to us that part of the responsibility for continuing large flows outside the budget rests with the MoF and line ministries because of the slowness, complexity and unreliability of their procedures.

More Participative Consultative Group Meetings

The change in the venue for periodic meetings of the CG to Dar es Salaam and the opening up of its deliberations to a wider range of stakeholders is another welcome development. Besides its symbolic value, it has made the CG more participative and transparent and is helping to break down 'them and us' attitudes towards the Bretton Woods Institutions (the IMF and World Bank - the BWIs). The linking of its meetings to the PRSP review and to the initial stages of the annual budget process has enhanced co-ordination of development initiatives in the country.

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In the round, therefore, it is evident that there is much progress to report. Those who can remember back to the situation at the time of the 1995 Helleiner report see the progress as spectacular, with the situation today quite transformed from the crisis situation of that time. If we instead adopt a more recent point of comparison, say 1999-2000, the changes are naturally less dramatic but, as recorded above, there is a clear improving trend across a range of the more important indicators. If in the later parts of our report we emphasise the remaining deficiencies and urge further progress, it is important to set these in the context of the improvements already achieved, from which all parties can derive satisfaction.

Perhaps two general points emerge from the above account. The first is the powerful influence of the trend towards programme aid. That is not only desirable in itself, as likely to raise aid-effectiveness and lower associated transactions costs, but we have seen how it has fed into a number of the other improvements recorded here: the development of more and more effective modalities of policy dialogue; the

move away from tying, including the tying of TA; the move towards a more demand-driven approach to TA; improved reporting of aid flows and increased proportions of total assistance being channelled through the exchequer.

The second point, which emerges more implicitly but which is strongly borne out by our interviews, and which will be further developed later in this report, is that there are marked differences in the extent to which individual donors have been willing and able to respond to the felt deficiencies in past aid delivery systems and to improvements on the side of the GoT. This points to an opportunity for making overall improvement through peer pressure. Large additional gains could be had simply by bringing the laggards and the unpersuaded into line with those at the more progressive end of the donor spectrum. But it also points to a constraint, for, in some of the 'laggard' cases, there are deep-seated obstacles to major and rapid reform. We return to this point later.

3.0 THE BASIS FOR THE IMPROVEMENTS ACHIEVED

As we have made clear, both the GoT and donors have responded in order to improve on the dire situation of the mid-1990s and both deserve credit for the improvements recorded above.

On the government side the emergence of a demonstrated commitment to improvement of relations with the donors has been fundamental. We have already drawn attention to the trend towards increased openness, transparency and accountability in the conduct of government business, and specifically to the administration of the budget. The Poverty Reduction Strategy (PRS) and the respective participatory working groups signify improvement in policy formation with greater focus and prioritisation. Subsequently, the Poverty Monitoring System (PMS) and Participatory Poverty Assessment (PPA) have been put in place to monitor and assess developments in poverty in a more transparent and participatory manner. We have already mentioned the development of the PER/MTEF into an important instrument for a more transparent, goal oriented and integrated budgetary process. The creation of the Tanzania Revenue Authority was also an important move. At a more prosaic level, the introduction of reforms such as the Medium Term Expenditure Framework (MTEF) and of the computer-based Integrated Financial Management System (IFMS), designed to raise the efficiency and integrity of public finance management, has also contributed to increased donor confidence and to the observed trend towards a progressive switch from project to programme aid modalities.

We would also single out as an important development the publication and launching in 2002 of the government's TAS. That such an initiative should be undertaken by government is itself symptomatic of how far relationships have developed since the original Helleiner report. Production of such a document was outside the range of the government's ambitions in 1995 and we see it as a most welcome development. Although we will later have some criticisms and suggestions for improvement, the significance of the TAS is in the potential it has for further developing Tanzanian ownership of the activities supported by its development partners and for steering aid provisions to meet local needs. Already, it provides a useful framework within which donors can set their own assistance strategies and a point of reference for making further progress in the development of relationships.

Increased openness, transparency and commitment to dialogue in the conduct of government business was reported to us in many of our interviews and, with inevitable qualifications, donor officials generally reported a good level of satisfaction with respect to their access to government ministers, senior officials and policy-formation processes. We were shown evidence of the large number of fora currently existing for GoT-donor discourse on a wide variety of policy levels: economy-wide, budgetary, relating to governance, in poverty monitoring, gender-related matters and in a wide variety of sectoral areas, including health, education,

local government reform, HIV/AIDS, and employment and income generation. At the same time, we observed a considerably greater degree of Tanzanian 'ownership' of policies and processes by comparison with the bleak situation in the mid-1990s, when the original Helleiner report commented on donor dominance and low levels of local ownership. The history of the recent past demonstrates the improved dialogue can be the friend of ownership, not its enemy, because it means that donors are less inclined to substitute policy conditionality for perceived local reluctance to engage and act.

Underlying all of this, and certainly helping to explain the change on the situation reported in the 1995 Helleiner report, has been the emergence of a political leadership committed to the re-building of constructive relationships with donor partners. Standing back from the details, what emerges from our work is the salience of an increased level of *trust* by the donors in the good intentions of the Tanzanian authorities. The existence of some minimum level of trust might be regarded as a *sine qua non* for the trend in favour of programme aid. The government has established a track record, and President Mkapa has demonstrated his commitment to reform, to an extent that donors have come to regard Tanzania as a favourable country for this form of assistance. Moreover, the agenda of macro stabilisation and liberalisation appears to have the support of most top-level civil servants and to have become sufficiently well embedded in the country's political fabric that the momentum can be expected to continue.

Of course, there remain concerns. Some respondents complained of a tendency for some senior ministers and CCM politicians to occasionally go off-message with anti-reform remarks. Some are said still to yearn for the *dirigiste*, socialist models of the past, just as it is widely thought that a good many middle-level public officials hanker after their former powers. The general view, however, is that the donors have been justified in their faith in the GoT. Nonetheless, the remaining concerns do draw attention to the truism that trust is much more quickly destroyed than created. A few bad decisions could rapidly undermine gains achieved only over several years.

On the donor side, not the least unusual aspect of the situation is that donors have been willing to revisit their own experiences, to be self-critical and to accept independent assessment. As a result, the successive evaluations by Professor Helleiner have come to play a role in facilitating discussions and dialogue between GOT and donors on various aspects of the aid relationship, and we hope our own appointment as an independent group, through this report, will play a similar role.

Besides a willingness to open themselves up to critical evaluation, donors have learned from past experience and have to a large extent accepted that some of their policies have not been effective in the past. Realisation of the limitations of tied aid, the use of long-term foreign experts especially in management positions of enclave projects, and excessive reliance on a multitude of discrete projects, together with an increased appreciation of the sometimes excessive transactions costs - to GoT and

donor agencies alike - of the aid delivered have contributed directly to the improving trends reported earlier. Again, many donors have shown willingness to adapt and respond flexibly to improvements made and initiatives taken by GOT. Not all donors have been able to move at the same pace but the direction of change is appreciable on the part of most. The capacity and willingness of some donors to adapt has been limited by policies and legislative provisions in their capitals but this situation is changing gradually too as OECD/DAC initiatives are pursued at higher policy-making levels.

In contributing to much of the progress so far achieved we would particularly like to single out the highly constructive and fruitful role of the local Development Assistance Committee (DAC), and to congratulate the UNDP for its important role in servicing this. It became clear during our work that this body is widely regarded in a very positive light and that it has contributed in an important measure to the unusually good degree of donor harmonisation and co-ordination we were able to observe. The local DAC appears to be able to combine an inclusive approach in the face of widely varying agency views and policies with the exertion of a positive peer pressure on what we have called the laggard or unpersuaded agencies. The DAC group has developed principles in support of the government's priorities. These, for example, spell out a general commitment to support the PRSP and acknowledge the TAS as establishing principles for engaging in key processes such as the PRSP, PER/MTEF and poverty monitoring.

We should here also mention the changed outlook of the World Bank. In the 1995 Helleiner report the Bank was, unusually, singled out for criticism as being unwilling to listen and arrogant, of placing little real weight on local ownership and of relying excessively on conditionality. We are bound to say that we found the present situation to be very different. Of course, the sheer scale of the Bank, not to mention its internal politics, are always likely to generate resentments on the part of others, so that, for example, we heard complaints about its allegedly rather cavalier attitude towards on-going GoT-donor efforts in education. However, the overall picture is that, within a structure which devolves much authority to its local office, the Bank has come to play a highly constructive role, supportive of the positive developments described above. It is now much less reliant on conditionality (although the formalities must remain written into its programmes) and more sensitive to local ownership questions. Symptomatic of its constructive role, at the time of our work Bank representatives were sitting down with other donors and GoT representatives to try to work out ways in which it could satisfy the Bank's requirements for the negotiation of a Poverty Reduction Support Credit (PRSC) while working as far as possible within the framework of the PRBS arrangements. We would like to record our support for such efforts and appreciation of the quality of leadership within the Bank's local office.

Another important change among some key donors has been a reduced reliance on policy conditionality. Co-ordinated and partnership-based approaches are increasingly replacing one-sided conditionalities. This arises from recognition of the

limitations of conditionality as a way of achieving donors' goals and targets but it also reflects growing co-ordination, improving partnership and increasing confidence in the government's capacity and commitment to achieving the agreed goals, e.g. through PRBS mechanisms.

Lastly, we would mention donors' stated desire to reduce the transactions costs to government of utilising the aid offered to it. This desire has been demonstrated through initiatives to improve co-ordination. Various processes are being rationalised and as a result qualitative improvement is being achieved in policy analysis, programme formulation, and monitoring and evaluation. Qualitative improvements are associated with reducing costs in terms of staff time required and time for consultations etc. We would particularly like to draw attention to the impressive list of draft 'Principles for promoting harmonisation and aid effectiveness' produced for the DAC in 2002. While there must remain questions about the extent of commitment to these principles by individual donors and while, by common consent, the long list presented in the draft needs a more prioritised and strategic refinement, the document represented a remarkable assertion of aspirations for improving aid effectiveness which were explicitly linked to the lowering of transactions costs, for donor and GoT alike. Thus, ideas such as the synchronisation of headquarter missions, the establishment of 'quiet times' when there would be no consultations or missions with the GoT, and the identification of 'silent partners' or lead agencies in sectoral co-ordination work are all explicitly designed to reduce costs.

In this context, we should also mention the change in the venue for meetings of the Consultative Group to Dar es Salaam and its opening up to a wider range of stakeholders. Among other effects, the linking of the CG meeting to the PRSP review and to the initial stages of the annual PER/MTEF process has enhanced co-ordination of development initiatives in the country. It appears that this re-location has, for example, led the CG to replace a large number of annual bilateral donor missions, with only a few donors now insisting on holding their own bilateral consultations.

Donors have thus contributed importantly to improving aid relationships in Tanzania. To some extent, the donor changes just described reflect general shifts of donor thinking on aid effectiveness. What impresses us, however, is that, in many respects, these changes have gone further in Tanzania than in most countries. The growing element of trust and the acceptance of independent assessment and monitoring has contributed to these outcomes. The case of Tanzania can therefore offer some useful lessons to other countries.

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So far, the tenor of this report has been highly positive. We see a lot that has gone right in the last seven years and we observe that all development partners have contributed to this progress. We think it is important to record this and, indeed, to

congratulate those who have contributed. At the same time, we would like to stress that there is no case for complacency. The situation is far from ideal and we see many areas where further progress is needed. We are also conscious that the view we gained as a group is essentially a 'Dar es Salaam view'. We strongly suspect - and various interlocutors said as much - that the situation can look very different at the grass roots level. Principles are one thing; how they are implemented in practice can be quite another. Even looking at the scene in the capital, many of the improvements recorded are still unhealthily confined to a small number of offices, especially within the Ministry of Finance. Various line ministries, as well as individuals and Parliament, have yet to be well integrated into the processes of dialogue. Moreover, during 2002 we came across incidences which could lead to deteriorations in relations e.g. with respect to the roads sector and in GoT complaints of donors 'moving the goalposts'.

We therefore now turn to a necessarily more critical examination of some of the areas where we see a need for further improvements. We look first at suggestions addressed primarily to the government side and then at recommendations directed primarily to the donors, although we acknowledge that some suggestions directed primarily at one side also have ramifications for the other side too.

4.0 AREAS FOR FURTHER IMPROVEMENT - (A) THE GOVERNMENT

At the core of the improvement recorded above has been an increasing level of trust between the GoT and its development partners. A number of the suggestions for government made below are intended to reinforce the basis of trust, as well as to strengthen Tanzanian ownership of policies and programmes. Suggestions are made in respect of strengthening dialogue, encouraging moves towards programme aid, addressing capacity constraints, addressing aid dependence and strengthening Tanzanian ownership.

Strengthening dialogue

One obvious way in which trust can be deepened is by taking further moves that have already been made to increase openness and improve channels of dialogue. Even though there is already a considerable number of such channels, there are still gaps. For example, during the course of our work a number of donor agencies became agitated about the effects of a new policy concerning the registration of motor vehicles, the, no doubt unintended, effect of which had been the impounding of a number of donor project vehicles. No doubt by the time our report is published this matter will have been long resolved. We mention it only because it illustrated how easily quite small actions can quickly spoil good relations built up over a long time and because it also appeared to draw attention to a gap in the machinery for dialogue. *Ad hoc* efforts were necessary in order to try to sort this out between donor agencies and GoT authorities. There did not appear to be a ready-made forum where such matters would easily be taken up, for it was obviously not a matter to bring before a body such as the PRBS or the PER. In enquiring about this, towards the end of our work, we were a little surprised to be told of the existence of a 'Development Co-operation Forum' run out of the Office of the President. This was the first time we had heard of such a body and we know little about it. It may well be, however, that a more regular and frequent use of this body would be an appropriate way of filling the gap we have identified, to deal at a suitably high level with matters that are important to GoT-donor relations but which do not fit within the existing avenues of policy dialogue. The recently formed Joint Secretariat consisting of GoT and DAC representatives is another useful mechanism for implementing TAS and the TAS action plan.

Another desirable development would be to broaden the base of those who, at official level, interact in discussions with the donors. A number of comments were made to us by donor officials along the lines that the number of genuine interlocutors in the ministries was quite limited. Receptivity to dialogue was described as highest in the MoF and good in a few of the line ministries, whereas others remained largely 'out of the loop'. This is reflected in the very uneven coverage of SWAPs. Only in the MoH had the SWAP approach been taken far and become well entrenched. Education was making an important beginning and there

is an apparently well-functioning basket arrangement relating to local government reform - a topic which, however, covers only a small part of the work of the President's Office Regional Administration and Local Government (PORALG). Other key ministries seem far from achieving that level of dialogue and therefore remain stuck with project-based modalities of support. To a substantial extent, the ability of a given ministry to move towards a SWAp arrangement is a function of the quality of its leadership but the present highly incomplete coverage of SWAps may also reflect the absence of a clear steer in favour of this from the centre, even though the TAS is in favour of them.

Recommendations:

- (1) It is desirable to strengthen existing avenues of dialogue to deal with matters relating to GoT-donor relations not readily covered by existing well-used machinery. One possibility is that this need might be covered by a more active and regular use of the already-existing Development Co-operation Forum. The recent establishment of the Joint GoT-DAC Secretariat referred to above is recommendable.*
- (2) The GoT, as a matter of general policy, should make it clear to all relevant line ministries that they should aim to induce donors to move away from project-based approaches in favour of SWAp-style arrangements. Line ministries should recognise that it will be necessary to invest considerable time and other resources in order to foster donor moves in this direction. The GoT, as a matter of policy, should make it clear to all relevant line ministries that they should build up their capacity to develop and manage SWAp-style arrangements and on that basis encourage donors to move away from project -based approaches.*

Encouraging further moves towards programme aid

It will necessarily take some time for further large-scale moves towards more programme support (budget aid) to take effect and in the transition we favour continuation of a blend of different aid delivery modalities. However, we are clear, as we believe is the government, that it should take actions that will encourage donors, collectively and individually, to go further in changing the composition of their financial aid in favour of programme support. For this to happen, however, donors have to be satisfied (a) that there is a programme worthy of support and (b) that it will be implemented so as to produce its intended results, so that they can have confidence that their monies channelled through the exchequer will be well spent and properly accounted for.

That there has already occurred a large shift in the composition of aid in this direction already reflects donor judgements that these conditions are in some degree already being satisfied. At the same time, all are agreed that there is much scope for further improvement, especially in the areas of implementation and public expenditure management, including anti-corruption measures. It will be important,

for example, for the Treasury to further extend the application of IFMS to all Districts. We appreciate that there are major structural and human resource obstacles in the way of this but regard it as important that donors and other stakeholders should be able to see that strenuous efforts are being made and progress is continuing.

Similarly with the MTEF: all welcome this as a desirable move away from budget-making driven by short-term considerations and in favour of a more demand- and results-oriented service delivery system but it is important that this too is strengthened so that all stakeholders can continue to see the practical results of this development of budgetary techniques and that it is resulting in strong, consistent state adherence to medium-term goals and spending priorities. All-importantly, this and other means are necessary to assure donors that their budgetary support is finding its way to the poor and other intended beneficiaries. It was also suggested to us that the MTEF could prove a useful instrument for harmonising medium-term programmes with the International Monetary Fund with those of other development partners.

Related to the good use of donor monies is the issue of corruption. Here again, the GoT cannot be accused of doing nothing. Having set up the Warioba Commission, a large proportion of the specific recommendations have been implemented and in 1999 the government adopted a Comprehensive National Anti-Corruption Strategy and Action Plan which is being operationalized in Plans of Action of 2001. The importance of acting on this front is rightly stressed in the TAS. At the same time, the general perception - shared by donors - is that corruption remains a grave problem in Tanzania and this can only undermine donor confidence that aid without detailed tracking of its application may be seriously mis-applied. The GoT has taken the initiative to monitor the state of corruption in the country by permitting independent assessment with a view to producing an Annual State of Corruption Report. The first such report has been produced Jointly by ESRF and FACEIT. The report (2002) has found that considerable work has been done to put in place institutional foundations for fighting corruption but the actual reduction of the level of corruption was modest. The problem is not with formal legislation, it is with execution and compliance. The report refers to widespread corruption within the health sector, the police and the courts, and especially at the District level. The Prevention of Corruption Bureau has not proved very effective, so that it prosecuted only 94 out of 3611 reported cases, and it is not known how many of these 94 actually resulted in convictions and how severe were the punishments. As the report notes, there are few risks attached to the acceptance of bribes. We should add that we heard a number of complaints along the lines that such action as had been implemented against corruption had been at relatively junior levels and that 'big men' involved had not been brought to book.

As is stressed by the Annual State of Corruption Report (2002), we recognise that corruption is a complex problem, requiring action on a number of fronts. We also recognise that there are limits on what can be done from the centre. Nonetheless, we

urge the GoT to recognise the need to urgently address the low levels of compliance with its anti-corruption measures. The well-publicised prosecution of one or two 'big men' could, for example, have a salutary effect. It has also been observed that the slow progress towards implementing the pay reform under the Public Service Reform Programme has not helped to curb corruption faster as envisaged earlier.

Returning more specifically to the budget, we have earlier commended the ways in which the PER/MTEF process has been developed over recent years. Among other things, this has undoubtedly been important in the improvement of GoT-donor relations and in encouraging donors to move in the direction of programme aid. We should add, however, that there are still perceived weaknesses in this system. One is the incomplete extent to which various line ministries participate in this process. It appears that the PER/MTEF is perceived by many as essentially an MoF instrument, and that the emergence of the PER/MTEF as an important part of the budgetary process is moving the balance of power away from some line ministries in favour of the MoF. Some have been reluctant to participate at a senior level, therefore, and some express doubt whether the MoF actually has a human capacity commensurate with such an important concentration of authority. If PER/MTEF is to progress satisfactorily, as we hope it will, it may be necessary for this nettle to be grasped explicitly and perhaps for a more consensual approach to be taken within the arms of government.

Another criticism is that the PER/MTEF still retains an outmoded attachment to the distinction between recurrent and "development" budgets. The development budget is not yet fully integrated with the PER/MTEF process and the implications of the development budget on poverty reduction strategy have not been worked out adequately. We have noted that with effect from 2002/03 this shortcoming is being addressed. A study is currently in progress to address the possibility of enhancing integration of the development budget into the PER/MTEF process and analysing more carefully the implications of this integration on the budget process and PRS. It was also suggested to us the PER/MTEF could be strengthened by devising ways of bringing in the District Councils into the process. In this respect, there is need to harmonize the application of IFMS and Local Government Reform Programme efforts at district level. Lastly, it was suggested that, as it has developed, the PER/MTEF is, for the donors, fulfilling many of the roles previously met by periodic meetings of the Consultative Group and that the CG might effectively be merged into the PER/MTEF. We favour this.

One further budgetary matter concerns the desirability of bringing within it a much higher proportion of specific donor projects. Indeed, the tendency for many such projects to be outside the budget - with all the implications that has for ownership - is an important reason for favouring moves towards more programmatic approaches. Albeit with varying degrees of enthusiasm, donors support the principle of putting their project support (except those with NGOs) through the budget book. They complain, however, that in practice the present Treasury systems are cumbersome, slow and unreliable. The procedure is also technically difficult.

Even if a donor would like to follow the procedure it is not easy to do so and it requires additional work. It is also likely that the counterpart organisation on the GoT side has little capacity to inform donors on how the procedure is to be operated. It is a major challenge to address this issue. A straight-forward way would be to channel all project funds through the exchequer system. But that requires the disbursement procedures on the Government side to be more effective than they are at the moment, so as not to cause further delays in project implementation. The recipient of the funds would have to undertake procurement of goods and services and pay the supplier.

There is a widespread view among Government and donors that the ability to handle those tasks is particularly low if the project involves international transactions. Capacity is limited, especially at lower levels of Government, and can only be expected to reach acceptable standards in the long term. Therefore, when Government asks the donors to channel funds through the exchequer system it has to make it credible that the system is able to handle the funds. A second option is that the donor provides the information for recording in the exchequer system. This requires a major effort on the part of donors. A third option is to lower the ambition and capture the main categories of expenditure made on projects and report these to the MoF. This would at least give an overview of the actual flows but will not meet the full technical requirements of the exchequer system.

There are indications that work has actually started to solve the problem of direct-to-project payments. MoF has prepared the necessary regulations. Recently the GOT prepared and issued a format which donors should follow in reporting and the response from donors has been encouraging. However, it has been realized that it will take much more to enable donors to follow these. Initiatives have been taken by GoT to improve the capture of direct-to-project commitments in the budget estimates (which is a prerequisite for direct-to-project funds to be captured in the IFMS system) and in 2001 ACGEN issued a note containing guidelines on channelling of donor funds through the Exchequer system in 2001. The guidelines have not been fully understood by all DAC members so consultations and training sessions are being organized for this purpose. The consultations mechanisms which have been put in place recently between GoT and DAC are expected to take up this matter as an important issue in the harmonization process. Following the ACGEN note, a number of donors have approached the MoF in order to channel newly negotiated project funds directly through the Exchequer. The concern about the unaccounted for direct payments is a joint concern but the MoF has to take a strong lead if improvements are to be achieved. It was also suggested to us that the IFMS is not well suited to project-oriented processes and might need modification to better accommodate these.

The DAC group target is for 50% of appropriated development assistance to be recorded in the Government accounts for year 2002/03. It is not clear whether this target includes budget and basket funds as well as project support or whether it refers only to project support, where the main problem lies. However, for the target

to be achieved, MoF would need to start serious efforts to inform relevant staff and donors of the procedures to be followed. Just providing the donors with the current regulations will not suffice. Also, implementing agencies will have to know how to handle the procedures.

Recommendations:

- (3) *Further strengthening of public expenditure management is essential for the desirable continued changes in the composition of aid from projects to budgetary support.*
- (4) *To this end, application of the IFMS system should be strengthened and extended all Districts. In this respect, there is need to harmonize the application of IFMS and Local Government Reform Programme efforts at district level.*
- (5) *The MTEF should be strengthened to translate the sector wide approaches into the annual budget in a three year rolling framework subject to hard budget constraints thereby aligning donor commitments with the GoT's strategic objectives and ultimately allowing GoT's own accountability procedures to be used for accounting for the development outcomes of the expenditure of both donor and government resources..*
- (6) *Such actions need to be complemented by more vigorous efforts by GoT to secure practical compliance with the anti-corruption measures it has introduced, and to demonstrate determination to bring the corrupt to justice, be they in high or low positions.*
- (7) *PER/MTEF processes should also be developed further, with actions to ensure that line ministries are full participants, to bring Districts within the process and to include the development as well as the recurrent budget.*
- (8) *All development partners should work towards amalgamating the periodic Consultative Group meetings with the existing PER/MTEF and other fora, as a means of reducing transactions costs for all parties.*
- (9) *Treasury needs to recognise that existing arrangements are not working well and to take measures both to familiarise donor staff with the procedures that have been adopted for implementing this and to streamline these so as to reduce the extra burdens placed on donor staffs. This will create conditions for donors to bring their (non-NGO) projects within the budget book.*

Addressing capacity constraints

The budgetary topics just covered are actually part of a wider set of issues, which also have a strong bearing on the country's ability to exert ownership over its policies and programmes, on donor attitudes towards Tanzania as an aid recipient

and on the forms in which assistance is provided. This wider area refers to the GoT's ability to design, execute and monitor policies in ways which are consistent with agreements worked out with development partners. By general consent, capacities in this area are still limited, with weaknesses at all levels but perhaps particularly in the Districts. The more the government can do to address this problem the easier it will be for it to secure the aid it needs in the forms that it most desires it. It should be realized that, to a large extent, the donor driven project culture, that has been and still is dominating in Tanzania, has its roots as much in lack of capability and capacity of the Government to formulate, manage and implement projects as in donors being obsessed by running projects.

While capacity building is usually done through technical assistance, Tanzania also needs to address the capacity building challenge more comprehensively. There is need to invest heavily in education at all levels. Increasingly complex interventions are designed where a variety of inputs are provided in a project or programme format where competence, organisational, systems and procedural issues are addressed.

In the context of capacity development and technical assistance, efforts should be directed:

- to develop the knowledge and competence of individuals.
- to develop organisations and/or systems of organisations and
- to change and strengthen institutional frameworks in the form of formal policies and laws and/or other informal norms which stipulate the limits within which individuals and organisations develop.

Capacity building interventions may address the individual level, the organisational level and the institutional level i.e. the rules of the game. Capacity building interventions thus aim at developing these rules and procedures, organise the work and provide resources (physical, human, funds) in a way that facilitates efficient implementation of those rules and procedures and equip people in the organisations with competence to operate efficiently according to the rules and procedures in implementation of policies and production of goods and services. Thus, a key element of capacity building is the development of knowledge and competence. Tanzania should undertake a national capacity needs assessment of priority areas of intervention in more activities than those already under way for monitoring the Poverty Reduction Strategy.

However, training and improved organisation by themselves cannot be enough. Another essential ingredient is the existence of an incentive structure that will enable the government to recruit, retain and motivate high-quality staff, so that the civil service no longer has to rely on a small number of dedicated and able, but over-worked, individuals and can instead build itself into a service that is of high quality at all levels and which can compete properly in the labour market with the private

sector. Needless to say, the provision of adequate salaries and conditions will also assist the fight against corruption.

In this context, we strongly support the Public Service Reform Programme due for implementation in 2000-2011 and urge the government to press ahead with this at all proper speed. We did not evaluate comprehensively the extent to which Phase I of this, due for completion in 2004, is on track. However, it would appear that the implementation of the pay reform is slow. We would particularly urge strong action to improve on issues of performance-related incentives and pay reform.

We also wish to emphasise the importance of strengthening the Districts. The Local Government Reform Program (LGRP) was launched in 1997 to improve service delivery to the public. This is being implemented in three phases, involving about 35 councils in each phase, with the first having started in January 2002 and the second starting in January 2003. The progress made so far is slow.

Although we heard different views on this topic and pleas that the capacities of the Districts will never be unlocked until they are given real fiscal and other responsibilities, it appears that the main weaknesses at the Council level are lack of capacity in financial management, lack of tools to deliver services (85% of recurrent budget is devoted to salaries), and lack of funds (about 80% of budget is from central government). In view of the fact that four-fifths of Tanzanians live in rural areas, the success or failure of poverty reduction efforts will depend on what happens at the grass roots levels. Therefore, the challenge of building capacity in the Districts, including giving them more responsibilities, is central to attaining the most important goal of the nation and deserves urgent concerted action.

Sectoral programmes have tended to be centralised while the LGRP requires decentralisation. There is the challenge of capacity and willingness of orienting sector focused programmes from vertically-based to district-based. The resistance to this reorientation has been noted in the case of some ministries and donor sector specialists. These are reflections of historical problems and challenges of transition.

Recommendations:

- (10) *Capacity building within the public sector is central to continued progress in aid relationships and technical assistance should be geared directly to this task. But action is needed on a wider front and the GoT should undertake a national capacity needs assessment of priority areas of intervention in more activities than those already under way for monitoring the Poverty Reduction Strategy.*
- (11) *In the context of providing the incentives essential for strengthening the public service, we strongly support the Public Service Reform Programme due for implementation during 2000-2011 and urge the government to press ahead with this, particularly its Phase I.*

- (12) *We urge the GoT to press ahead with its programme of decentralisation and to pursue a strategy which combines giving the Districts more genuine fiscal and other responsibilities with improvements in the human and other resources available to them.*

Addressing aid dependence

Even by the standards of Africa as a whole, Tanzania is highly reliant on net aid inflows. In 2000, for example, net aid receipts were equivalent to US\$31 per person, nearly 12% of national income, nearly half of all imports and nearly two-thirds of total capital formation.² While these ratios are considerably lower than was the case a decade ago, in absolute terms little reduction is evident and it is accepted on all sides that there are serious doubts about whether such volumes can be sustained over time or, indeed, whether they are desirable. For one thing, it is extremely difficult to reconcile such high levels of reliance with genuine national ownership of programmes and policies. For another, the donors naturally wish to see some realistic prospect of an 'exit', or at least for a gradual scaling down of necessary support.

The desirability of reducing this reliance is accepted by all sides as a desirable long-term goal, although we would like to see the TAS state this more explicitly. It is not the purpose of this group to propose a general development strategy that will reduce the necessity for external support but we can sketch out what we regard as some key ingredients and urge the GoT to explicitly and adopt concrete measures to reducing aid reliance. We would single out the following as among the key ingredients:

i) Increasing agricultural production and productivity:

Agriculture should be the corner-stone for growth and poverty reduction, with action focusing on increased budgetary allocation, implementation of agricultural and rural development strategies, removing unnecessary controls at local levels and supporting and facilitating private sector activities and investment in agriculture. It should also be noted that better cooperation between all ministries (especially the three most direct ones) will be needed in order to most effectively develop agriculture and rural development. These concerns should be incorporated in the Agricultural Sector Development Programme which is currently under preparation.

ii) Mobilising government revenue and domestic savings

- Tanzania's revenue generation as a percentage of GDP is around 11%, one of the lowest in Africa. The average tax yield for sub-Saharan Africa is about 21%. Tanzania's low level is largely accounted for by a large non-

² The actual statistical equivalents, from the World Bank's *World Development Indicators, 2002*, are 11.6% of gross national income, 48.6% of imports of goods and services and 65.3 of gross capital formation. The comparable averages for sub-Saharan Africa as a whole were 4%, 11% and 23%.

monetised output (29% of GDP). However, room exists to collect taxes from the informal sector and to review taxes for new entrants in the mining sector – a view also widely shared by stakeholders in the mining sector. TAS states that raising the ratio to 15% is a "medium term target" but this is not time-bound and we would like to see the GoT going further in setting specific time-bound targets. Further action is needed in the areas of continued tax reform, harmonising central and local government taxes, strengthening tax collection and widening the tax base by curtailing exemptions and extending the tax net to the informal sector.

- Mobilisation of domestic savings should be stepped up by accelerating the completion of financial sector reforms and giving priority to the development of semi-formal savings mobilisation approaches which can reach many Tanzanians at affordable cost and time. Savings and Credit Societies are of particular relevance at this stage of Tanzania's development. The emergence of micro-finance institutions ready to lend to groups of borrowers in an effort to reduce poverty is a welcome initiative.

iii) Promoting investment

The GoT has made good progress in attracting foreign direct investment (FDI) especially into mining, tourism and other sectors. In fact, recent World Investment Reports have put Tanzania among the high performers in Africa in this respect. GOT has put in place legislation to establish Free Economic Zones, a move intended to attract investors. Also important is promotion of domestic investments in particular the small and medium size investments. Also important is the revival of small-scale industries to cater largely for the domestic market which is currently flooded with cheap imports and for special niches in the export markets. Decisions have also been made on approaches to privatise government-owned farms with a view to attract investors in that important sector. Perhaps most importantly of all, the government needs to act to reduce the many restrictions and extensive bureaucracy which stand in the way of private sector business expansion and, therefore, of saving and investment within the private sector. To the extent possible aid resources should be used to promote investments with a view to graduating from aid dependence.

iv) Promoting exports

Initiatives to enact Economic Processing Zones are one step towards promoting exports. However, a comprehensive export development strategy is lacking. There is need to put in place an export strategy and develop a program to take advantage of opportunities such as those offered by programmes such as AGOA (USA) and the European Union ("anything but arms").

v) Modernise the service sector

In particular, pay attention to the tourism sector by spending money to develop medium-term comprehensive programmes that would take into account all activities involved. That is how countries like Seychelles and Mauritius developed tourism. The recent initiative that the GoT has taken to hold a Tourism Investment Forum (22-24 October, 2002) to invite investors to put their resources in a wide range of tourist attractions is a development in the right direction. Priority needs to be given to follow-up to realize the objectives of promoting investments in tourism in a sustainable way.

Addressing aid dependence is primarily the responsibility of the GoT. However, this should not be construed to mean that the responsibility for reducing aid dependence lies exclusively on the Tanzanian side. Donor actions can help or hinder this. Clearly, for example, the various suggestions we make later to promote Tanzanian ownership and to assist with capacity-building will help, as would sustained determination by donors to ensure that such topics as local resource mobilisation and private sector development remain high on the policy dialogue agenda. Although this takes us, and local donor representatives, well beyond our remit, it also goes without saying that actions by donor countries to improve Tanzania's access to world markets, and the terms on which she can trade with the rest of the world are of potentially great value in reducing the country's need to rely upon aid inflows.

Recommendation:

(13) The GoT should explicitly adopt reduced aid dependence as a policy objective and should, perhaps in a new edition of the TAS, set forward a programme for achieving this, including specific measures and targets. We envisage that such a programme should include measures to raise productivity in agriculture, to improve domestic resource mobilisation, to stimulate investment (public and private), to improve infrastructure (e.g. transport and energy) to modernize the service sector and to promote exports. Donors too should acknowledge their responsibilities in this area and should adopt specific policies for this purpose

Strengthening Tanzanian ownership

One of the strongest criticisms deployed in the 1995 Helleiner report concerned the way the local agenda was dominated by the IFIs and bilateral donors and the apparent passivity of the then government in the face of this. It is clear that the ownership situation is healthier today. Conditionality is less intrusive and there is far more by way of a genuine meeting of minds between the GoT and its development partners. As exemplified by the conduct of macroeconomic policy and by the PRS, considerably more of the national agenda is being set locally.

Nevertheless, it would be naïve to think that the high level of aid dependence reported above does not lead to a large remaining donor influence. So long as they are providing assistance on such a large scale, they remain important stakeholders with a legitimate voice in policy and resource-allocation decisions. However, we think the GoT could go further than it has hitherto to strengthen its own control over policies, programmes and projects. In particular, we were disappointed by the quietude of the TAS, in the version eventually published in 2002, and its failure to be more assertive concerning preferred forms of aid and the co-ordination of this. We understand that earlier versions were more forthcoming but were toned down in response to pressures from certain donors. We are sorry that the Tanzanian authorities did not stand their ground on this.

It is natural that MoF officials would not wish to jeopardise possible aid inflows by causing offence or by stipulating conditions which specific donors find it difficult to comply with but, against this, we suggest:

- (a) Examples from other countries suggest that donors do respond favourably to situations in which recipient governments are clear about their priorities and firm about adherence to these. Ultimately, aid co-ordination, if it is to promote national goals, must be a matter for the government and donors realise that this promotes the effectiveness of their own resources. As has been shown in connection with SWAp arrangements in Tanzania and elsewhere, donors can display considerable flexibility when they become convinced of the desirability of lines of action which previously they have avoided.
- (b) As we commented earlier, in our view Tanzania is seen by donors as one of the African countries in which their aid is most likely to be used effectively in pursuit of agreed goals. The situation is a lot less favourable in many other potential recipients. This gives donors a strong predilection for continuing with substantial programmes in the country. In other words, the GoT's negotiating power is greater than might be inferred from the country's heavy reliance on aid. Donors have budgets to spend and they face adverse consequences if they fail to do so. In other words, the GoT should be emboldened to take a stronger line on occasions and to say No to offers of "assistance" which do not fit with national priorities.
- (c) To pursue this line of thought a little further, the authorities might ask themselves what they are losing if they turn down offers of this kind. Typically, these will consist of specific projects, often to be operated outside the budget and to be implemented on the basis of special implementation units manned by expatriate 'technical assistance' personnel provided as a condition for undertaking the project, probably aided by Tanzanian officials receiving special incentive payments to give priority to the projects in question. All that we know about such aid suggests that it contributes little to the balance of payments (because of high project import content); yields little

or no net revenue to the budget and may well become a net drain upon it because of counterpart payments and consequential recurrent cost requirements; contributes little to long-term development because it typically has low sustainability, i.e. it represents an investment with a low, perhaps zero, returns; and, because of its enclave nature, it adds little to longer-term local human and institutional capacities. Instead, the parallel nature of such projects tends to undermine the already weak administrative machinery. The question arises, what is lost by refusing such assistance? Evidently not much. We believe that the fears that a lot of donor assistance would be foregone are not founded. In fact, we were told that in the few occasions where the GoT has said No, the donors have usually responded positively and made the required modifications of their offers. There is good reason to move systematically towards institutionalising the practice of saying No to such offers which are not consistent with national priorities. In short, we urge the GoT to be more willing to say No in the face of offers which do not fit its own priorities and with what is known about what makes aid effective. We are not here suggesting that it should try to fit all aid into a rigid predetermined mould. As stated earlier, a blend approach remains desirable. What we are suggesting is more a matter of screening-out the least valuable of the offers received.

Production by the GoT of the TAS has been widely welcomed. It represents a laudable and potentially important initiative. The emphasis is on its potential, however, for we share Professor Helleiner's view that, as published, the document is vague about the government's priorities and actually has little to say that is substantially demanding of the donors and contributes to the co-ordination of their manifold activities. It was suggested to us that it tends to fall between stools, being neither a strategy nor an operational document, and that it has been somewhat overshadowed by the PRS. The document does contain a number of "undertakings by development partners" but we are very doubtful about the status of these and about the seriousness of donor commitment to them. In fact, they have effectively been overtaken by the DAC's more radical draft 'statement of harmonisation principles'. However, there are two recent positive developments which are addressing this challenge. First, TAS has been redefined to focus on providing a framework for improving development cooperation paying special attention to improving aid coordination and ownership and a draft action plan has been prepared which is meant to operationalize TAS. It is now having a mandate quite distinct from that of PRS. Second, the establishment of Joint GoT/DAC Harmonization mechanism provides an institutionalised mechanism for adapting and integrating the proposed harmonization principles into TAS, a development which could help to further operationalize TAS. In fact, one obvious way in which a future edition of the TAS could be strengthened would, in full consultation with development partners, to incorporate a more strategic and prioritised statement of the harmonisation principles, assuming a consensus can be reached on these. This could go a long way to defining the government's own position with regard to good aid practice, and to the tasks of co-ordination and monitoring. While there are

apparent differences in emphasis and priority between the two documents as they currently stand, we think it would not be difficult to achieve agreement between the two sides. In fact, the greater difficulty is likely to be in achieving consensus among donors

As a final comment on this matter, however, we believe that the capabilities of the MoF would need substantial augmentation for it to be able to play the type of leadership role we are advocating here. At present, there are intolerably large strains put on a small number of individuals who, for all their great abilities and dedication, simply do not have the time to think strategically and to engage fully with donors. Given the very large economic and financial importance of aid inflows, we urge that a significant infusion of additional high-quality personnel in the relevant sections of the MoF would be a very good investment.

(14) The GoT should go substantially further than hitherto in setting out its preferences with regard to forms of aid and the co-ordination and monitoring of donor performance. Put bluntly, the GoT should be more willing to say No.

(15) In the TAS it has the ideal vehicle for this purpose. The TAS should be developed in the direction of making it a more operational document focusing specifically on aid-relation issues. It needs to work closely with the local DAC in developing it along these lines and should aim to incorporate a prioritised set of harmonisation principles which the GoT could then use in order to take the lead in aid co-ordination matters. Although it may seem to be obvious, it is important to stress that line ministries and local government should be included in processes aiming to arrive at consensus about harmonisation principles.

(16) For the GoT to be able to take the lead in aid coordination, however, the staffing and other resources of the MoF would need to be augmented, which we would regard as well justified by the large importance of aid inflows to the Tanzanian economy.

5.0 AREAS FOR FURTHER IMPROVEMENT: THE DONORS

We turn now from matters on which we would like to see action primarily from the GoT to examine desirable changes on the part of its development partners, although we repeat that on a good many topics what is needed is action by *both* sides. The general purpose, of course, is to indicate ways in which the progress of the past can be taken further and, most particularly, ways in which the transactions costs associated with aid provisions can be reduced, for donors as well as the GoT. In this connection, it might be helpful if we set out more fully our reasons for taking the view we do about desirable future trends in the composition of aid. On the side of the donors, suggestions are made here in seven areas: further improving the composition of aid, learning lessons from SWAps, reducing the vulnerability of programme aid to political uncertainty, raising the effectiveness of technical assistance, further improving donor coordination, empowering agencies to play a full partnership role and rationalizing the fora for dialogue.

Further improving the composition of aid

Negatively, the experience in Tanzania with *project support* was reported to us as consistent with experiences elsewhere: that in the past it has entailed large transactions costs for all parties; that it led to a poorly co-ordinated proliferation of individual projects and to undesirable forms of competition between donors; that it has tended to undermine the fiscal discipline and improved expenditure management systems by circumventing regular budgetary procedures; it has added further to budgetary difficulties because of the recurrent-costs of running the projects created; by the same token, extensive project aid has tended to undermine GoT priorities and to be inconsistent with giving primacy to local ownership of aided activities; and that in earlier periods many projects failed because the milieu in which they operated was marked by serious systemic and policy weaknesses without at that time giving donors an avenue for addressing these. While it is no doubt true that all or most past projects have been formally requested by the Tanzanian authorities, the experience here, as elsewhere, is that such a requirement quite fails to ensure local ownership of the activities in question.

Of course, experience does not deny that there have been successful aid projects but these have been more isolated outcomes than general trends. It should also be realised that capacity for project management will be needed, even in an ideal situation where all assistance would be provided as budget support. The Government would still have to run projects of various kinds and it would need to build capacity for managing projects and would need to procure external expertise, domestic and foreign. It should also be noted that under certain limited circumstances project aid can be a superior modality for carrying out some activities. This could be the case, for example, where an activity initiated on the Tanzanian side would fall outside the government's regular budget, or be with a ministry or agency where there are no provisions for programme assistance, or where it is mutually

agreed that there is need for an *ad hoc* response to some narrowly specified, perhaps transitory, need. It is also recognized that, forms of assistance other than programme assistance, may be more appropriate for those outside the public sector - specifically to CSOs and the private sector.

By comparison, we see *programme aid* as avoiding various of the drawbacks just mentioned, especially when it takes the form of a pooling of resources and co-ordination among donors. The presumption is that, with a much smaller number of reporting points, with no necessity for a multitude of Project Implementation Units, with donors accepting common reporting procedures and standards, with procurement-tying virtually eliminated and with much less necessity for enforced project-linked technical assistance activities, transactions costs per dollar of aid received will be much smaller. In Tanzania, the possibilities of this have been enhanced by the development of the PRBS' common Performance Assessment Framework, to be discussed later. The GoT's budget situation has been improved by the PRBS and its predecessor not merely because most of the programme aid is available as a revenue but also because it avoids the budgetary drawbacks of project aid. Ownership is promoted because the aid is in support of the GoT own programmes. And budget support provides donors, collectively and individually, with channels of dialogue through which they can expect to influence the wider economic and policy environment. A strong presumption is hence established in favour of precisely the shift from project-based to programme-based assistance that has been such a strong recent feature in Tanzania.

It should be noted, though, that the transactions costs considerations are more complex than just described. The point here is that many of the savings are likely to accrue to donor agencies (fewer project implementation and technical assistance costs), whereas it is in the GoT where the capacity constraint is the more acute. Within the GoT, savings are likely to be enjoyed in line ministries, no longer so encumbered by many donor projects and conditionalities, but *a greater burden will fall on the MoF* because that is the agency with principal responsibility for policy dialogue, programme monitoring and the observance of conditionalities. Thus, the issue of the capacity of the MoF to meet these responsibilities, addressed in the previous section, is central to the case for further budget support.

We do not wish to labour this point further but what is also clear from Section 4 is that the speed at which donor agencies can justify to their headquarters further moves in the direction of proportionately greater programme support depends to a substantial extent on a variety of factors where responsibility rests primarily with the GoT: the standard of public expenditure management, effective anti-corruption measures and the tackling of capacity constraints. No-one expects the associated problems can be solved overnight; what is sought is a clear improving trend. Assuming such improvements continue, we urge Tanzania's donors to continue the overall trend in aid in favour of programme support.

In this respect, some donors have gone much further than others and some remain resistant, for various reasons. In some cases, notably the United States, legislative provisions at home make it difficult to respond. In others, there remains an attachment to well-established modalities and aid policies have been slow to adapt to changing perceptions of the effectiveness of different forms of aid. Perhaps in one or two cases it is felt impossible to reconcile the existing centralisation of agency authority in its headquarters with full participation in a modality whose logic pushes in the direction of agency decentralisation. In yet others, the situation in Tanzania may not yet be seen as sufficiently favourable to warrant going further in the direction of programme or budget support.

Thus, if the momentum towards greater programme aid is to be maintained the nature of the task is to propel what we have called the 'laggard or unpersuaded' donors further in that direction. We see two important ingredients to that. First, is a willingness by the Tanzanian authorities to exert its own pressure - but to reinforce that with actions, of the type already described, to further improve the environment for proportionate increases in such aid: better programmes, better implementation. This is where we see the TAS as having an important role to play. Second, is the exertion of peer pressure within the local DAC. It seems already to be doing a good job in that direction, with its combination of a progressive agenda and a commitment to inclusivity. The recent formation of a Joint GoT-donor Secretariat on harmonization likely to reinforce the exertion of peer pressure and to help iron out some areas where donors may otherwise have difficulties in reaching agreement on their own. In the meantime, a blend of approaches will be necessary, combining some projects, some sectoral assistance, some macro-level budget support. What we hope - and warn against - is that the pragmatic value of a blend approach as a *transitional device* will not be elevated to support for this as a permanent state of affairs, and as a justification for providing whatever form of aid best suits a given donor.

Recommendations:

- (17) *There are good reasons for believing a continuation of the trend towards proportionately increased flows of programme assistance to be desirable for aid effectiveness and reduced transactions costs. We urge donors, collectively and individually, to continue this overall trend.*
- (18) *We believe the local DAC has been doing valuable service in providing a lead in this direction and hope it will continue to do so by exerting peer pressure, while retaining the principle of inclusivity.*
- (19) *In recognition of the constraints that exist - in Tanzania as well as in donor capitals - on any overnight abandonment of project-based approaches, we favour maintenance of a blend of approaches to aid delivery modalities. However, we see this as a transitional device rather than as a justification for the avoidance of change.*

Learning lessons from SWAps

We have thus far made no sharp distinction between macro-level programme aid (such as PRBS and HIPC) and support for the budgets of specific sectors, through SWAps. In principle, macro-level support may be viewed as preferable on the grounds that concentration on just a few sectors may distort national and budgetary priorities, as well as raising familiar questions about fungibility. Against this, however, SWAp aid, *at its best*, has in common with macro-budget support many features tending to lower transactions costs and to promote local ownership and a partnership based pursuit of policy dialogue, instead of approaches reliant on extensive conditionality. Moreover, as pointed out above, a large-scale shift in aid forms towards macro-support does place a very heavy burden on the MoF. Overall, there is a reduction in transactions costs for the government but these become more concentrated on just one, not particularly strong, ministry.

The chief extant SWAp arrangement covers the health sector and we were anxious to see what lessons might be learned from experiences with this so far. We realise that the lessons to be learned from SWAps are not confined to donors alone but, as shown below, greater responsibility for improving the situation has to do with action on the part of the donors. Where applicable we also indicate where action is needed from the government side. While we recognise that basket funds and SWAps are different, for our purposes we treat them together

Various views were expressed to us about this and it seems fairly clear from these that the health SWAp is far from being a pure form. There appears to be agreement that it has helped to build constructive MoH-donor relationships, has facilitated dialogue and improved concentration on agreed priorities, and, by creating a previously weak demand, has strengthened policy analysis and implementation capacities within the ministry. It has also reduced the ministry's uncertainties about its year-to-year funding, improving its ability to plan ahead.

Against this, in various respects donor attitudes have prevented attainment of many of the potential benefits of a SWAp. For one thing, the health basket of this type reportedly covers only about a third of all assistance to health. The project mode remains common and coexists uneasily with the basket, increasing the problems of achieving coherence within the sector, as well as the burdens on ministry staff. Donors commonly continue to insist on their own procurement procedures and reporting requirements. Some insist upon earmarking. Some have been unable to adapt to the requirements for decentralised modes of decision-making which are required by basket-type schemes. A further complaint we heard, applying to donors and MoH alike, is that the basket arrangements have tended to be excessively introspective, too concerned with the scheme's own modalities of operation, insufficiently focused on the wider problems of health service delivery and the reduction of mortality and morbidity. There are donor complaints, too, about a lack of transparency, and MoH failures to meet monitoring and auditing requirements.

In consequence of these failings, some of our interlocutors were not at all sure that the net effect of the health SWAp had been to reduce transactions costs and, outside the MoH, there was a noticeable lack of enthusiasm for the SWAp. It was stated to us that the SWAp covering local government reform has thrown up fewer problems but we are not in a position to comment on that. A new SWAp is also just commencing in education but it is far too early to draw lessons from that case. Overall, the health sector has made the most advances including in aspects of capacity building. However, there were problems with the health SWAP which we could not establish whether they are particular to that sector or they are generic.

Against this, there do appear to be improving trends within health although not all them need necessarily be associated with SWApS. According to a Health Sector Review of March 2002, there are various improvements as well as lessons to record, which are relevant to SWApS:

- Value added has been realised from the contribution of a small technical committee to do thorough preparations. The work of this committee has enriched dialogue between the GOT and donors. This suggests that further collaboration and strengthening joint working during the year and improving dialogue, preceded by more focused and Tanzanian-conducted technical work, could result in improved outcomes.
- Good progress has been made towards making the review more inclusive, with the participation of a wide range of stakeholders. The review demonstrated that a SWAp for a particular sector has implications which impinge on other sectors, creating the need for broad participation. This suggests a need to improve linkages with other reforms and with work in other ministries.
- The review focused more on results and health issues such as HIV and malaria, less on the mechanics of the SWAp. There is need to shift the balance away from servicing donors and observing the scheme's own modalities of operation towards policy and implementation issues leading to results and monitoring of performance. This shift towards results can be replicated in other sectors.

Recommendations:

- (20) *Well-working SWApS are a large improvement on project-based aid, standing to benefit local ownership and lower transactions costs. We therefore support their further development in Tanzania.*
- (21) *However, the full benefits, for both sides, will only be realised if donors are willing to follow the full logic of SWApS, by such means as the adoption of*

common procurement and reporting arrangements, the avoidance of earmarking, and parallel persistence with discrete projects which fall outside the remit of the SWAp.

- (22) Sectoral ministries also need to play their full role in developing SWAps, e.g. by giving adequate priority to policy dialogue, instituting procurement arrangements in which donors can have faith, being scrupulous about meeting reporting and auditing requirements, etc. Above all, it is the quality of the key ministry's leadership which is likely to determine the success or otherwise of a given SWAp.*
- (23) SWAp arrangements should be institutionalised in ways which guard against narrow approaches determined by the subject boundaries of a given ministry and should instead encourage participation and co-ordination of all relevant stakeholders. For example, it would be highly desirable to develop an arrangement to cover agricultural development which, however, would need to go well beyond the Ministry of Agriculture to bring in other ministries and agencies with important bearing on the progress of the rural economy.*

Reducing unpredictability of resources and the vulnerability of programme aid to political uncertainty

We were informed that donors have sometimes not adhered to the levels of aid and timing as pledged. This discrepancy has often been manifested in shortfalls and delays in disbursements of budgeted external resources. The challenge of improving the predictability of external resources is being addressed through MTEF which includes as element of making indicative commitments over a longer period than one year. However, the problem of divergence between commitments and disbursements continues to persist. Some donors associated shortfalls in disbursements to capacity constraints on the side of GoT (relating to implementation or meeting agreed conditions). This problem should continue to be addressed in various dialogue forums in order to address possible solutions such as simplifying disbursement procedures and conditionalities and improving GoT absorptive and implementation capacity as the case may be.

As regards vulnerability of programme aid to political uncertainty recent experiences have suggested that caution needs to be exercised on this front. While it can reasonably be argued that moving from project to programmatic forms of aid lowers total transactions costs, it does, as already pointed out, redistribute them and may actually place heavier burdens on some, within donor agencies as well as within the MoF. Additionally, Tanzania has recently discovered another type of cost most likely to be confined to macro-level programme aid, namely increased uncertainty about future flows as a result of the greater susceptibility of such aid to political-level decisions within donor countries to withhold promised assistance. This has arisen specifically

for Tanzania in connection with a dispute with a large donor, which responded by cutting back on promised levels of PRBS aid. We do not want to comment on the merits of this case, merely to draw attention to the greater susceptibility of budget support to this type of intervention. It is much less likely that the donor in question would have applied such a sanction had its aid largely been in project form.

The issue for us is whether it might be possible to reduce this unwelcome element of uncertainty concerning future programme aid receipts. Of course, any donor must retain the right to withhold resources in protest against developments within the recipient country which are sufficiently grave to merit such a sanction but we believe it ought to be possible to minimise the resulting uncertainties through the adoption of rules of good practice designed to ensure clarity on all sides about what should be expected in donor-government relationships and to establish mechanisms for resolving difficulties and disputes. What we have in mind here is that donors should agree a code by which they would enter into commitments which are revocable only in the most extreme circumstances (e.g. a military coup overthrowing an elected government) and which, say, cover some substantial period, so that the recipient Treasury would be in a position not merely to know with confidence how much they would be getting in the current financial year but also for the following year as well. Beyond the agreed period, the conditions in which offers of support could be withdrawn would be less stringent (although they should never be trivial). Not the least of the advantages of such a code would be that it would provide a cooling-off period during which the dispute in question might be resolved, through agreed dispute-resolution mechanisms.

We appreciate that the issue referred to here is not peculiar to Tanzania and that it raises issues of general donor policy which it is not within the powers of officials in Dar to resolve. Nonetheless, we do think there is a real problem and urge donor representatives to take this up, as generic to the move towards programme aid, with their head offices.

Recommendation:

- (24) *It would be strongly desirable to develop safeguards against the sudden withdrawal of promised levels of programme support as a result of political-level interventions within donor countries in protest against unwanted developments in Tanzania. We urge donors to agree a code of good practice which, should establish agreed mechanisms for resolution of disputes which would, except in extreme circumstances, would safeguard promised flows for an agreed period and we urge donor representatives in Dar to argue the case for such actions with their principals in headquarters.*

Raising the effectiveness of technical assistance

Successive Helleiner reports have been highly critical of past approaches to the large volume of technical assistance received by Tanzania over the years. In being so, they were reflecting a growing general recognition, by analysts and practitioners, that, while TA certainly has a large potential value, it has often failed to do much to strengthen capabilities within recipient countries. A recent report, commissioned by the Dutch authorities, for example, provides the following summary of criticisms of conventional past approaches to TA, which is criticised for:

- being insufficiently demand-drive, leading to low local ownership
- undermining local capacity and self-confidence
- being excessively expensive
- lacking sustainability
- delivering low -quality support
- being fragmented and incoherent
- often being procurement tied, further raising its cost and reducing its value

The same report states that there is now agreement on the need for fundamental changes and to move away from the long-term assignment of expatriate 'experts'.

We have recorded earlier that progress is being made in Tanzania. Most donors report that they are making less use of long-term expatriate specialists and of TA tied to project implementation. They aver that they nowadays place greater weight on considerations of local ownership and on capacity-building. At the same time, we suspect that progress on the TA front has been slower, or perhaps more variable, than is the case with financial assistance. In particular, we suspect that, in aggregate, TA provisions remain highly fragmented and are in no sense a co-ordinated, considered approach to the strengthening of local institutional capabilities and human capital, and often have low local ownership. For example, the pooling of resources earmarked for TA into basket funds which can then be used by the Tanzanian authorities for recruiting in an open market locally and internationally for skills and other types of assistance still seems a long way ahead. Promising initiatives towards pooling TA resources have been taken especially in respect of PER/MTEF studies and Local Government Reform Programme but we were also informed of cases of reversals from pooling TA resources. We suspect that the gap between general practice and what is now seen as the most desirable model remains large in Tanzania. In this regard, we were sorry that the draft DAC 'principles for promoting harmonisation' had rather little to say on this topic.

At the same time, it is evident that making TA a more effective vehicle for capacity-building not only calls for major changes in donors' past approaches to TA delivery but places new responsibilities for leadership on the Tanzanian authorities. If indeed what is needed is a more considered, comprehensive

and co-ordinated utilisation of TA resources, it is an important task of the GoT to define its needs and priorities, and to undertake the necessary co-ordination. This applies both at the centre and at the sectoral level. In this respect, the GoT recruitment efforts should be assisted by the utilisation of specialised international recruitment agencies.

As on other topics, the TAS has a potentially valuable contribution to make but at present is largely silent on this topic.

Recommendation:

- (25) *We urge donors, collectively and singly, to accept the desirability of moving in the direction of the provision of pooled TA resources, untied with respect both to country of origin and project, for application in integrated programmes for the strengthening of Tanzanian capacities at national, sectoral and local levels. Future versions of donors' 'principles of harmonisation' should reflect this and should form the basis for discussions with Tanzanian authorities on raising the effectiveness of TA resources*
- (26) *At the same time, we urge the Tanzanian authorities, at the various levels, to take the lead in formulating programmes for the development of capacities at central, sectoral and District levels, in order to create a considered demand for the TA support on offer. The intention to move in this direction should be clearly set out in a future edition of the TAS. We further suggest that a useful next step might be to form a joint working group to design ways of moving forward on this and to put specific proposals to future meetings between the GoT and DAC.*

Further improving donor co-ordination

We have observed earlier that considerable efforts are already going into the task of co-ordinating the efforts of donors, and we have commended the DAC draft 'principles for promoting harmonisation' as a highly constructive initiative for moving further in this direction. Leaving aside topics covered earlier in this report, we would additionally like to commend various of the suggestions within these draft principles aimed at reducing the transactions costs of donors and the GoT alike, and at reducing the excessive burdens that presently fall on a relatively small number of individuals within the Tanzanian public service.

There is concern that many donors are spread thinly over too many sectors and some sectors are feared to be overcrowded with donors support while other sectors receive less support than they deserve. According to data from the MoF, for instance, health had 82 projects supported by 15 donors, education had 49 projects supported by 19 donors and agriculture had 48 projects supported by 20 donors. Some donors had projects in many sectors. For instance, DFID had 35 projects in 14 sectors, Denmark had 35 projects in 10 sectors and IDA had 28 projects in 17 sectors.

The spread of projects across donors and spread of donors across sectors suggests that there is a case for being more selective and for regularizing the principle of “lead donors” to avoid competitive overcrowding.

Recommendation:

(27) *We would particularly commend the following suggestions in the DAC harmonisation principles and urge that they be taken forward by donors and, in consultation with the GoT, be incorporated in the TAS:*

- *Within the framework of SWAp arrangements, acceptance of common reporting procedures, joint missions and the synchronisation of missions.*
- *The establishment of 'quiet times' when no missions or other consultations with GoT are held.*
- *In the context of sectoral support, acceptance by individual donors of the principle of selectivity, and of 'lead donors', to avoid the competitive overcrowding which has marked the situation in favoured sectors in the past.*

Moving in these directions will be difficult for a good many donors, even though they may recognise the desirability. We would particularly like to mention the World Bank here, not because it is particularly at fault but because of its quantitative and intellectual importance as a donor. It is clear to us that the Bank has gone a long way to 'clean up its act' by comparison with the situation described in the 1995 Helleiner report. Progressive leadership within the local Bank office has wrought large improvements in relations with the GoT and other donors alike, although there naturally remain points of discontent and friction. There has, for example, been some resentment of what have been perceived as recent heavy-handed actions by Bank sector specialists from Washington. Examples were given on the education sector. There is some sense that the country office may have been reforming at a pace a little too fast for the comfort of the Board and some staff in Washington. There remain difficulties in reconciling the Bank's procurement rules with following agreed local procedures. There are still difficulties in switching the Bank's former Economic and Sector Work (ESW) in favour of more collective approaches through the PER/MTEF processes. There remain difficulties in making sure that all the various departments of the Bank conform equally to agreed norms of donor behaviour, particularly in such matters as selectivity, accepting others as lead agencies and avoiding the aggressive pursuit of programmes for which there may be an internal Bank logic but which may not fit well with agreed priorities in-country.

More specifically, there is the important matter of the co-ordination of the negotiation of a new Poverty Reduction Support Credit (PRSC) with the economy-wide work conducted between the GoT and other donors under the auspices of the PRBS. We warmly welcome the efforts being made to bring these sets of dialogue together, so far as possible, and the stated willingness of the Bank's former Country Director to go as far as possible in this direction. We earnestly hope that

appointment of a new Country Director, no longer resident in Dar es Salaam, will not prejudice these efforts in any way.

Recommendation:

- (28) *We wish to point out the pivotal role of the World Bank in further improving donor co-ordination and lowering transactions costs, to commend it for the efforts it has been making to play a constructive role in these areas and to urge it to continue in these directions, even in the face of the inevitable institutional resistances. We strongly support ongoing efforts to harmonise the Bank PRSC currently under negotiation with existing PRBS/PER institutions and policies.*

Empowering agencies to play a full partnership role

The model of GoT-donor relationships advocated in this report is a now-familiar *partnership* approach. This envisages that the Tanzanian authorities should be 'in the driving seat', that local ownership is of primary importance, that relationships should be based on dialogue and mutual agreement rather than on conditionality, and that aid should increasingly be in support of GoT programmes, national and sectoral, rather than discrete projects. The trend has already been in that direction and it is no coincidence that, in parallel, channels of dialogue have grown up and become institutionalised which previously did not exist. A partnership approach demands such a development, as providing the institutional basis for donor confidence that their goals coincide with the government's and that their money will be well-spent. Such institutional development requires the involvement, to a much greater extent than previously, of a range of stakeholders in policy decisions, *with donors as among the important stakeholders with legitimate inputs into policy processes.*

The logic of this, of course, is that donor agencies locally must be equipped to participate well in these channels of dialogue. That means that they must have a good deal of expertise pertaining to the local situation and an ability to proceed with a reasonably fast pace of local decision-making. In short, partnership approaches require donors to reallocate their personnel resources and also their decision-making authority so as to be able to have an influential say in the processes of dialogue. It was reported to us that a good number of donors have recognised these needs and have responded by re-deploying staff, augmenting staff establishments with greater use of local and expatriate consultants, and increasing the decision-making authority of their representatives in Dar. By no means all have done so, however, and we would urge those who have been slow to respond to do their utmost to raise their local value-added through the channels of dialogue. However, one bilateral donor agency that has actually undergone greater centralisation to its capital city argued to us that this had not proved a major impediment to its effectiveness because decision processes in its capital are fast. In the general case, however, we would expect a continuation of the trend towards greater agency decentralisation to be the desirable direction.

Recommendation:

- (29) *We urge all donors which have not already done so to consider the organisational implications of the move towards a more partnership- and dialogue-based relationship. In the general case, we favour a continuation of the already-existing trend in favour of building up the expertise available locally to agency offices and towards empowering them with greater decision-making authority.*

Rationalising the fora for dialogue

Welcome though it is, the growth in a dialogue-based style of relationship has been somewhat *ad hoc* and has generated a plethora of different points of contact. To some extent, this is desirable because there are many tasks to be undertaken at different levels. However, there was a sense among our informants, which we share, that there is a rather urgent need to rationalise these, to reduce the number of fora, to reduce the amount of overlap between them and to lighten the considerable burden that this proliferation places on officials of the donors and GoT alike. Specifically, it was suggested that the CG might usefully be folded into the developing PER – MTEF process, and there are also questions about the respective roles of the PER-MTEF and various PRSP-PRBS-HIPC committees and working groups. Here too the GoT should take the lead, aligning processes with the budgetary cycle and perhaps focusing efforts more around the PRSP or a further developed PER-MTEF. We suggest it should bring specific proposals forward for consideration by a special meeting of the Development Co-operation Forum.

Recommendation:

- (30) *There has been a proliferation of formalised channels of dialogue which stands in need of rationalisation. The GoT should take the lead, aligning processes with the budgetary cycle and perhaps focusing efforts more around the PRSP or a further developed PER-MTEF. It should bring specific proposals forward for consideration by a special meeting of the GOT – DAC group.*

6.0 FUTURE MONITORING ARRANGEMENTS

The experience we have had in this evaluation has lent itself to some suggestions for future monitoring arrangements. In this regard, suggestions are provided in four areas: undertaking periodic stock-taking, GoT and donor performance monitoring, performance indicators and replicating the Tanzania experience.

Need to Undertake Periodic Stock-taking

The exercise in which we have been engaged is rather unique and is the latest of a succession of prior exercises in the monitoring of GoT-donor relations. The question arises whether our report should be considered the conclusion of these efforts or whether they should be extended into the future. It is our strong belief that similar exercises should be undertaken from time to time in the future.

One of the notable factors concerning our assignment is that, unlike the 1995 exercise, it was commissioned at a time when there was no crisis in GoT-donor relations. At the same time, we have found many areas in which there is much scope of improvement. Moreover, we are conscious of the vulnerability of the progress that has been achieved to changes in key personnel and other unforeseen developments. Both these considerations point to the potential advantages of periodic stock-taking exercises, as well as more *ad hoc* exercises that might be undertaken in response to some future crisis. So far as periodic stock-taking is concerned, we suggest that the parties might think in terms of exercises comparable with our own every two or three years. From time to time, these might perhaps be given a more specific focus, to examine some particular aspect in greater depth than we have been able to achieve. One possibility that occurs to us might be for provision to be made for a future IMG to examine the situation at the District level, for we suspect that a misleadingly favourable impression may be given by concentrating on 'macro-level', Dar-based exercises. Another possibility is that the next IMG might be asked to review the situation in Zanzibar in light of the islands' renewal of relations with donors. The preparation of the Zanzibar Poverty Reduction Plan (2001) and the imminent resumption of donor support to Zanzibar add to the desirability and timeliness of such a review. Yet another is that a future evaluation could examine the operation of SWAp and other sectoral arrangements

Government and donor performance monitoring: two sides of the coin

An important principle we would urge here is that such exercises should not be confined to monitoring just one side of GoT-donor performance. It has rightly been observed that the GoT is already subjected to intense monitoring by the donors, through the various mechanisms described earlier, whereas such monitoring of the donors as occurs is much less rigorous. The question, "Who will monitor the donors?" is well put. But we would make two points about this: (a) that there is value in reviewing GoT performance independently of the donors because that is likely to yield different insights, and may reinforce the donors in some areas while

protecting the government from what may be unwarranted or over-hasty judgements; and (b) that the actions of both parties are likely to be influenced by what is done (or not done) by the other, so that it is not appropriate to judge the performance of the donors except in the context of trends on the government side, and *vice versa*.

Performance Indicators

We are aware that, as part of the background to our study, there was a good deal of interest in the development of quantitative performance indicators on various aspects of GoT –donor performance. For example, the TAS devotes substantial attention to this. Of course, the development of indicators and other monitoring devices has already been taken a long way as it relates to the government side, through the monitoring mechanisms created in connection with the PRBS, the PRSP and the various SWAP arrangements. The most obvious deficiency is indeed as it relates to donor performance. We suggest some specific indicators below but we would like to warn against any heavy reliance on quantified indicators. As this report illustrates, any well-rounded assessment of performance on either side is necessarily multi-faceted and qualitative in nature, quite apart from some of the more technical problems with indicators mentioned below. We strongly doubt that the essence of GoT or donor performance can be captured through the use of quantified indicators, although such indicators can provide useful inputs into a rounded judgement.

To be of maximum use, indicators need to meet a number of criteria:

- They should be unambiguous in their definition and be ‘objective’, in the sense of not relying upon judgements.
- The data they utilise should be reliable, up-to-date and available in comparable form over a period of time.
- They should be based on data already available or not too costly to obtain, and should be capable of aggregation into single series, e.g. by means of an index series.
- They should preferably be capable of fairly unambiguous normative interpretation, so that there will be a reasonable consensus about the desirability or otherwise of a given trend and the nature of any necessary corrective action.

Looking at the Tanzanian scene, remarkably few indicators on donor performance meet these criteria at present. Most of those which suggest themselves fall down on a simple availability-of-data test. In other words, it will require improved donor reporting for much progress to be made on the development of indicators. However, some progress has already been made and the following suggest

themselves as indicators that ought to be feasible in the near future if the donors comply with the GoT common reporting scheme.

- (i) Number of donors not fully complying with GoT common reporting system.
- (ii) Break-downs of reported aid disbursements, as percentage of total, could be made on several counts as follows:
 - sectoral basket funding + other support within SWAP programmes
 - PRBS funding + World Bank and other multilateral budget support
 - Project aid other than technical assistance, (i) pooled and (ii) single-donor
 - Aid tied to procurement within donor country
 - Reported through exchequer system
- (iii) Disbursements as a % of commitments
- (iv) Number of sector review missions (a) joint and (b) single-donor.

Should the parties agree on the desirability of further developing such indicators, we suggest that this should be incorporated into a revised TAS for implementation jointly by the GOT – DAC Technical Group.

Replicating the Tanzania Experience

Lastly, we urge that the IMG-type exercises undertaken in Tanzania could usefully be replicated in other donor-dependent countries and we recommend that donors should urge on their respective headquarters the potential value of this type of monitoring activity for other country situations. We suspect there are few recipient countries that could not benefit from such initiatives, although they might be particularly fruitful in countries with a recent record of difficult government-donor relations but where political or other changes offer the possibility of a fresh start. Sierra Leone or (in the near future) Kenya suggest themselves as examples. We hope that this device might be taken up, for example, by OECD-DAC in Paris as something which might be adopted more widely in future.

Recommendations:

- (31) *Evaluations comparable with that presented in this report should be undertaken every two or three years. These should examine GoT-donor relations in the round, i.e. not be confined to donor performance. They might be given a more specific focus, e.g. to examine SWAps, or the position in the Districts, or in Zanzibar.*
- (32) *We do not think that quantified performance indicators can have more than a useful supplementary role in future assessments but we do suggest that the*

GOT and donors, possibly under the auspices of the recently formed Joint GOT – DAC Secretariat, should work together to agree a number of such indicators for subsequent incorporation in the TAS.

- (33) *We urge that evaluations of government-donor relations similar to our own could usefully be replicated in other aid-dependent countries and recommend that donors suggest to their respective headquarters that they promote the wider use of this type of monitoring activity.*

7.0 SUMMARY OF RECOMMENDATIONS

- (1) It is desirable to strengthen existing avenues of dialogue to deal with matters relating to GoT-donor relations not readily covered by existing well-used machinery. One possibility is that this need might be covered by a more active and regular use of the recently established GOT-DAC Technical Group.*
- (2) The GoT, as a matter of general policy, should make it clear to all relevant line ministries that they should aim to induce donors to move away from project-based approaches in favour of SWAp-style arrangements. Line ministries should recognise that it will be necessary to invest considerable time and other resources in order to foster donor moves in this direction. The GoT, as a matter of policy, should make it clear to all relevant line ministries that they should build up their capacity to develop and manage SWAp-style arrangements and on that basis encourage donors to move away from project –based approaches.*
- (3) Further strengthening of public expenditure management is essential for the desirable continued changes in the composition of aid from projects to budgetary support.*
- (4) To this end, application of the IFMS system should be strengthened and extended all Districts In this respect, there is need to harmonize the application of IFMS and Local Government Reform Programme efforts at district level.*
- (5) The MTEF should be strengthened to translate the sector wide approaches into the annual budget in a three year rolling framework subject to hard budget constraints thereby aligning donor commitments with the GoT's strategic objectives and ultimately allowing GoT's own accountability procedures to be used for accounting for the development outcomes of the expenditure of both donor and government resources.*
- (6) Such actions need to be complemented by more vigorous efforts by GoT to secure practical compliance with the anti-corruption measures it has introduced, and to demonstrate determination to bring the corrupt to justice, be they in high or low positions.*
- (7) PER-MTEF processes should also be developed further, with actions to ensure that line ministries are full participants, to bring Districts within the process and to include the development as well as the recurrent budget.*
- (8) All development partners should work towards amalgamating the periodic Consultative Group meetings with the existing PER-MTEF and other fora, as a means of reducing transactions costs for all parties.*
- (9) Treasury needs to recognise that existing arrangements are not working well and to take measures both to familiarise donor staff with the procedures that have been adopted for implementing this and to streamline these so as to reduce the*

extra burdens placed on donor staffs. This will create conditions for donors to be more willing to bring their (non-NGO) projects within the budget book.

- (10) Capacity building within the public sector is central to continued progress in aid relationships and technical assistance should be geared directly to this task. But action is needed on a wider front and the GoT should undertake a national capacity needs assessment of priority areas of intervention in more activities than those already under way for monitoring the Poverty Reduction Strategy.*
- (11) In the context of providing the incentives essential for strengthening the public service, we strongly support the Public Service Reform Programme due for implementation during 2000-2011 and urge the government to press ahead with this, particularly its Phase I.*
- (12) We urge the GoT to press ahead with its programme of decentralisation and to pursue a strategy which combines giving the Districts more genuine fiscal and other responsibilities with improvements in the human and other resources available to them.*
- (13) The GoT should explicitly adopt reduced aid dependence as a policy objective and should, perhaps in a new edition of the TAS, set forward a programme for achieving this, including specific measures and targets. We envisage that such a programme should include measures to raise productivity in agriculture, to improve domestic resource mobilisation, to stimulate investment (public and private), to improve infrastructure, to modernize services and to promote exports.. Donors too should acknowledge their responsibilities in this area and should adopt specific policies for this purpose*
- (14) The GoT should go substantially further than hitherto in setting out its preferences with regard to forms of aid and the co-ordination and monitoring of donor performance. Put bluntly, the GoT should be more willing to say No.*
- (15) In the TAS it has the ideal vehicle for this purpose. The TAS should be developed in the direction of making it a more operational document focusing specifically on aid-relation issues. It needs to work closely with the local DAC in developing it along these lines and should aim to incorporate a prioritised set of harmonisation principles which the GoT could then use in order to take the lead in aid co-ordination matters. Although it may seem to be obvious, it is important to stress that line ministries and local government should be included in processes aiming to arrive at consensus about harmonisation principles.*
- (16) For the GoT to be able to take the lead in aid coordination, however, the staffing and other resources of the MoF would need to be augmented, which we would regard as well justified by the large importance of aid inflows to the Tanzanian economy.*
- (17) There are good reasons for believing a continuation of the trend towards proportionately increased flows of programme assistance to be desirable for aid*

effectiveness and reduced transactions costs. We urge donors, collectively and individually, to continue this overall trend.

- (18) We believe the local DAC has been doing valuable service in providing a lead in this direction and hope it will continue to do so by exerting peer pressure, while retaining the principle of inclusivity.*
- (19) In recognition of the constraints that exist - in Tanzania as well as in donor capitals - on any overnight abandonment of project-based approaches, we favour maintenance of a blend of approaches to aid delivery modalities. However, we see this as a transitional device rather than as a justification for the avoidance of change.*
- (20) Well-working SWAps are a large improvement on project-based aid, standing to benefit local ownership and lower transactions costs. We therefore support their further development in Tanzania.*
- (21) However, the full benefits, for both sides, will only be realised if donors are willing to follow the full logic of SWAps, by such means as the adoption of common procurement and reporting arrangements, the avoidance of earmarking, and parallel persistence with discrete projects which fall outside the remit of the SWAp.*
- (22) Sectoral ministries also need to play their full role in developing SWAps, e.g. by giving adequate priority to policy dialogue, instituting procurement arrangements in which donors can have faith, being scrupulous about meeting reporting and auditing requirements, etc. Above all, it is the quality of the key ministry's leadership which is likely to determine the success or otherwise of a given SWAp.*
- (23) SWAp arrangements should be institutionalised in ways which guard against narrow approaches determined by the subject boundaries of a given ministry and should instead encourage participation and co-ordination of all relevant stakeholders. For example, it would be highly desirable to develop an arrangement to cover agricultural development which, however, would need to go well beyond the Ministry of Agriculture to bring in other ministries and agencies with important bearing on the progress of the rural economy.*
- (24) It would be strongly desirable to develop safeguards against the sudden withdrawal of promised levels of programme support as a result of political-level interventions within donor countries in protest against unwanted developments in Tanzania. We urge donors to agree a code of good practice which, should establish agreed mechanisms for resolution of disputes which would, except in extreme circumstances, would safeguard promised flows for an agreed period and we urge donor representatives in Dar to argue the case for such actions with their principals in headquarter*

- (25) *We urge donors, collectively and singly, to accept the desirability of moving in the direction of the provision of pooled TA resources, untied with respect both to country of origin and project applications, for application in integrated programmes for the strengthening of Tanzanian capacities at national, sectoral and local levels. Future versions of donors' 'principles of harmonisation' should reflect this and should form the basis for discussions with Tanzanian authorities on raising the effectiveness of TA resources*
- (26) *At the same time, we urge the Tanzanian authorities, at the various levels, to take the lead in formulating programmes for the development of capacities at central, sectoral and District levels, in order to create a considered demand for the TA support on offer. The intention to move in this direction should be clearly set out in a future edition of the TAS. We further suggest that a useful next step might be to form a joint working group to design ways of moving forward on this and to put specific proposals to future meetings between the GoT and DAC.*
- (27) *We would particularly commend the following suggestions in the DAC harmonisation principles and urge that they be taken forward by donors and, in consultation with the GoT, be incorporated in the TAS:*
- *Within the framework of SWAp arrangements, acceptance of common reporting procedures, joint missions and the synchronisation of missions.*
 - *The establishment of 'quiet times' when no missions or other consultations with GoT are held.*
 - *In the context of sectoral support, acceptance by individual donors of the principle of selectivity, and of 'lead donors', to avoid the competitive overcrowding which has marked the situation in favoured sectors in the past.*
- (28) *We wish to point out the pivotal role of the World Bank in further improving donor co-ordination and lowering transactions costs, to commend it for the efforts it has been making to play a constructive role in these areas and to urge it to continue in these directions, even in the face of the inevitable institutional resistances. We strongly support on-going efforts to harmonise the Bank PRSC currently under negotiation with existing PRBS/PER institutions and policies.*
- (29) *We urge all donors which have not already done so to consider the organisational implications of the move towards a more partnership- and dialogue-based relationship. In the general case, we favour a continuation of the already-existing trend in favour of building up the expertise available locally to agency offices and towards empowering them with greater decision-making authority.*
- (30) *There has been a proliferation of formalised channels of dialogue which stands in need of rationalisation. The GoT should take the lead, aligning processes with the budgetary cycle and perhaps focusing efforts more around the PRSP or a further developed PER-MTEF. It should bring specific proposals forward for consideration by a special meeting of the GOT – DAC group.*

- (31) *Evaluations comparable with that presented in this report should be undertaken every two or three years. These should examine GoT-donor relations in the round, i.e. not be confined to donor performance. They might be given a more specific focus, e.g. to examine SWAps, or the position in the Districts, or in Zanzibar.*
- (32) *We do not think that quantified performance indicators can have more than a useful supplementary role in future assessments but we do suggest that the GoT and donors, possibly in the auspices of the recently formed Joint GOT – DAC Secretariat, should work together to agree a number of such indicators for subsequent incorporation in the TAS.*
- (33) *We urge that evaluations of government-donor relations similar to our own could usefully be replicated in other aid-dependent countries and recommend that donors suggest to their respective headquarters that they promote this type of monitoring activity in other countries.*

Appendix: Terms of Reference

APPENDIX II: Terms of Reference as per agreed Proposal from ESRF

The reports, delivered to the CG meetings will discuss the following items as laid down in the TOR :

Progress towards:

- Establishing GOT leadership in conceiving and executing development programmes in close partnership with its external partners and local stakeholders.
- Greater involvement of the local stakeholders outside of the government in development management.
- Changing attitudes and adoption of flexibility in procedures for aid delivery and utilisation.
- Improved aid co-ordination and integration of aid resources in agreed expenditure frame/ development priorities.
- Greater transparency in aid delivery on the part of donors and accountability for its use on the part of GOT.
- Enhanced complementarity of aid delivery systems to domestic efforts towards capacity building for development management.
- Reduction in malfeasance and adoption of explicit measures to rid the country of corrupt practices.
- Overcoming such other concerns regarding good relationships between the government of Tanzania and the donors as have been identified either in the Helleiner reports or in subsequent investigations.

Professor Helleiner's assessments in regard to specific 18 recommendations for the relations between GOT/and the donors will be up-dated, in light of new developments.

A set of performance indicators will be developed to evaluate and assess achievements in regard to the objectives agreed between GOT and the donors represented in the CG. It is intended that these indicators will allow assessments of :

- The degree of local ownership. This will be reflected by the degree of GOT leadership with regard to developing policy priorities, strategic frameworks and institutionalised development co-operation mechanisms in the different areas and sectors.

- The degree to which GOT is involving civil society and private sector in development of policies and strategies.
- The degree to which the GOT is prioritising and rationalizing expenditures in line with available resources and stated development priorities.
- The degree of integration of resources into the strategic expenditure framework.
- The degree of integration of reporting and accountability systems.
- Adequacy in resource disbursements relative to prior commitments.
- The degree to which the timing of resource disbursements is responsive to exogenous shocks to the Tanzanian economy.
- The extent to which resources are untied with respect to donor country of procurement and/or available for local procurement (both in total and exclusive of technical assistance).
- The degree to which complements domestic capacity building efforts.
- The degree to which firm ODA commitments are made for longer time periods.
- Improvement in public finance management on the part of government.
- The degree to which the GOT has created an appropriate national accountability system for donor reporting and accounting for all resources.
- The degree to which ministries, regions and districts receive clean audit reports from the Controller and the Auditor General.
- The degree of transparency in reporting and accountability both at national and sectoral level.

The report to be presented at the next CG meeting in 2002 is expected to be the first step and the baseline for further work. The findings in this report and the outcome of discussion at the CG meetings will provide a basis for work in subsequent periods.

It is understood that independent monitoring of the Tanzania - donor relationship will be a living activity. However, for a start the budget for the first year (2002) is presented here.

The allocation of the specific study tasks to the members of the working group will be done at the first meeting of the group. In this meeting the working tasks for the different members of the experts team and the support team will be defined.

APPENDIX III: List of people consulted in preparing this report

No.	Name and Position	Institutions
GOVERNMENT		
1.	Mr. P.M. Lyimo, Deputy Permanent Secretary	Ministry of Finance
2.	Mr. Peter Noni	Bank of Tanzania
3.	Mr. Ngirwa, Permanent Secretary	Ministry of Agriculture and Food Security
4.	Mr. Charles Mutalemwa, Permanent Secretary	Ministry of Industry and Trade
5.	Permanent Secretary	Ministry of Education
6.	Mr. Omar Bendera, Deputy Permanent Secretary	President Office, Planning Privatisation
7.	Mr. Hoza District Executive Director	Bagamoyo District
8.	Mr. Kiama - CAG	Ministry of Finance
9.	Mr. Shuli – Assistant CAG	Ministry of Finance
10.	Mr. Mwanza – Assistant ACGEN	Ministry of Finance
11.	Mr. Peter Ngumbulu – Permanent Secretary	Ministry of Finance
12.		
13.	Ms Joyce Mapunjo	Ministry of Finance
14.	Mr. Gray Mgonja – Deputy Permanent Secretary	Ministry of Finance
15.	Mr. Raphael Mollel – Permanent Secretary	Vice President Office
16.	Mr. Ramadhani Khijjah	Ministry of Finance
DONORS		
1.	Mrs. Anne Marie Rosenlund, Counsellor	Royal Danish Embassy
2.	Mr. Detlef Mey	GTZ
3.	Ms Valerie Leach	UNICEF
4.	Mr. John Hendra New Resident Representative	UNDP
5.	Prof. Diejomaoh	ILO
6.	Dr. Martti Euroala, First Secretary	Embassy of Finland
7.	Mrs. Ann Stodberg, Counsellor development Cooperation	SIDA
8.	Mr. Akio Egawa, Deputy Chief of Mission	Embassy of Japan
9.	Ms Janet Graham	CIDA
10.	Sumio Aoki, Resident Representative	JICA
11.	Mr. Brian Proskurniak, Councillor	Canadian High Commission

In addition, the IMG met with specific groups either in their own meetings to which the IMG was invited or in workshops which were specifically organized for that purpose. These are:

- (i) DAC Members (at one of their meetings),
- (ii) PER Members (at one their meetings),
- (iii) Private Sector Representatives (at a workshop)
- (iv) .Civil Society Representatives (at a workshop)

No.	Name and Position	Institutions
12.	Mr. Peter Anold – Councillor and Resident Coordinator	Switzerland Agency for Dev. Cooperation
13.	Dr. Ali Abdi - Resident Representative	IMF
14.	Ms Fiona Sheri, Economist	DFID
15.	Dr. Schmidt	European Commission
16.	Ms Tone Tinnes	NORAD
17.	Prof. Benno Ndulu – Lead Economist	World Bank
18.	Dr. Inyang Ebong – Deputy Resident Representative	UNDP
19.	Mr. Bertil Oden – Economist	Swedish Embassy
20.	Mr. Kirkland	USAID
21.	Mr. Stafford Baker	USAID
22.	Mr. Phillip Courtnage	UNDP
23.	Ms Jytte Larsson	Danish Embassy
24.	Mr. Willem Bronkhorst	Dutch Embassy
25.	Mr. Stephen Collet	Dutch Embassy
Private Sector Organisation		
1.	Mrs. Christine Kilindu, Chief Executive Director	CTI
2.	Mr. Hussein Kamote – Chief Economist	CTI
3.	Mr. Ulrich Mumburi – Industrial Economist	CTI
4.	Mr. Andrew Bird consultant	Makoro Ltd.
5.	Mr. Frans Ronsholt	SERA Consulting APS
NGOs		
1.	Dr. Brian Cooksey	TADREG
2.	Mrs. Mary Mwingira	TANGO