



# **Tanzania: New aid modalities and donor harmonisation**

What has been the experience? What lessons can be learned and carried forward to other countries?

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## List of Acronyms

CAS	Country Assistance Strategy
CCM	Chama Cha Mapunduzi (Governing Party)
CFAA	Country Financial Accountability Assessment
CG	Consultative Group
CSO	Civil Society Organisation
CUF	Civic United Front (Main opposition party)
DAC	Development Assistance Committee
DAC Group	Local group of donors, comprising all government aid agencies and international organisations
DFID	Department for International Development (UK)
EAC	East African Community
EU	European Union
HIPC	Highly Indebted Poor Countries
IFIs	International Finance Institutions
IMF	International Monetary Fund
IMG	Independent Monitoring Group
JSA	Joint Staff Assessment (IMF and the World Bank)
LGRB	Local Government Reform Basket
LGRP	Local Government Reform Programme
MDF	Multilateral Debt Relief Fund
MTEF	Medium Term Expenditure Framework
NORAD	Norwegian Agency for Development Cooperation
NGO	Non-Governmental Organisation
PEDP	Primary Education Development Plan
PER	Public Expenditure Review
PER WG	Public Expenditure Review, Working Group
PO-RALG	President's Office – Regional Administration and Local Government
PRBS	Poverty Reduction Budget Support
PRGF	Poverty Reduction Growth Facility (IMF)
PRSC	Poverty Reduction Strategy Credit (World Bank)
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PSAC	Programmatic Structural Adjustment Credit (World Bank)
Sida	Swedish International Development Cooperation Agency
SWAp	Sector Wide Approach
TAS	Tanzania Assistance Strategy
TSH	Tanzanian Shilling
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund

## Foreword

Harmonisation and donor co-ordination are important contributions for making development assistance more effective. The move from projects to program aid have increased recipient governments' ownership and control of their own development.

The achievements have so far been mixed. Since the situation and achievements differ from country to country it is important to share experience in order to avoid re-inventing the wheel and rather use best practice. To achieve this, collecting and disseminating field experience both to headquarters and among field offices is important.

The present report is an attempt to systematise recent experience from Tanzania in the field of new aid modalities and their interplay with donor harmonisation. It is based upon the experience of the two economists in the Embassy of Norway (1999-mid-2003) and Embassy of Sweden (2001-mid-2003). As some of the processes have been taken further in Tanzania than in many other countries, an empirical input in the ongoing discussion on these issues may be of interest.

The report focuses on the links between the harmonisation efforts and programme aid modalities. It covers issues like improvements in donor-government relationship, consequences for transaction costs, harmonisation of budget support and links to the Public Expenditure Review.

We would like to share this report also with stakeholders outside our own organisations. It should be considered as feedback from the field by two of our staff members, providing empirical material into the policy discussions and perhaps also some food for thought in other countries than Tanzania. We hope it will generate comments and feedback on the issues raised and views on how to handle the challenges raised in the report.

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## Summary

The characteristics of development co-operation in Tanzania have gone through major changes in recent years. Significant progress has been made in the field of donor harmonisation and an increasing share of the external resources has been channelled into the Government budget through its financial system.

This report is an attempt to systematise recent experience from Tanzania in the field of new aid modalities and their interplay with donor harmonisation. Part of the change discussed in this report can be explained by trends at the international level. Our impression is, however, that some of the processes have been taken further in Tanzania than in many other countries. They may therefore be of interest as an empirical input in the ongoing discussion on these issues.

We believe that there are four underlying factors, which to a large extent explain the willingness in recent years of many aid agencies to move forward on aid harmonisation and new aid modalities in Tanzania. They are political stability, macroeconomic stability, increased economic growth and confidence in the Tanzanian commitment to public sector reforms. Other explaining factors in the harmonisation context are a stronger commitment among key people in Tanzania to take the lead, the decentralisation of decision making to the field offices of the aid agencies and staff committed to harmonisation in Government and aid agency offices. There is also agreement between most donors and the Government that the Poverty Reduction Strategy and the Tanzania Assistance Strategy, should be the main basis for the co-operation.

The experiences are summarised in four chapters. The general features of the improved relationship and the main factors behind this improvement are discussed in chapter 2. An important catalyst for the improving trend in the relations since the mid-1990s was the introduction of independent monitoring, including assessment also of donor behaviour. It was followed up with new reports at later Consultative Group meetings.

New aid modalities, notably programme aid in various forms, have been a response by donors to improved Government policies and spurred further policy reforms. It has strengthened the Government ownership and changed its quality. At the same time the main donors have got better insight in central government processes. To further sustain the improvements, it is important that donors see budget support and Sector Wide approaches as long-term commitments and develop instruments to avoid stop-go situations.

A specific experience in Tanzania has been the inclusiveness and transparency among donors in the harmonisation process, in which the local DAC Group has played an important role. Information has often rapidly been disseminated to a wider group than those directly involved.

A contributing factor to the improved aid harmonisation and alignment has been that many of the local offices of the key aid agencies have been delegated a higher level of responsibility from the headquarters, facilitating a more flexible and rapid interaction with the Government and among themselves. Experience from Tanzania shows that these processes are time-consuming that and smaller countries like Sweden and Norway need to be well staffed to handle the challenge.

In chapter 3 and 4 we discuss how and why many donors have increased the share of programme aid, notably SWAps, other basket funding and budget support. These modalities have facilitated harmonisation of aid procedures and have a strong potential to reduce the transaction costs in the long run, while the processes linked to these modalities in the short run may increase them..

Among the main experiences in this field are:

A change from project to programme modality involves changes of influence and a new way of thinking. If the Government authorities involved are not committed and convinced of the advantages of a change, the risk for delays and lack of sustainability is high.

If the ongoing move towards programme modalities does not coincide with a corresponding reduction of the project aid, total transaction costs may increase on both sides. Support from the same aid agency to a sector through both sector basket support and projects erodes the potential transaction cost reduction.

The experiences from baskets of labour sharing between donors, including the lead donor and joint secretariat concept, are positive and are useful instruments to reduce transaction costs on the donor side. They facilitate involvement with both government and the Bretton Woods Institutions and make it possible also for smaller countries to be a more effective partner in those relations. There is a potential for further development in this field.

There are, however, dangerous signs of “process overload”. The rapid increase of programme aid modalities has increased the number of new processes linked to the monitoring of the programmes, which are not sufficiently harmonised between themselves nor sufficiently aligned in the budget and financial management systems.

Budget support has changed the dimension of Government ownership, making it both stronger and more vulnerable to general political opinions in the donor countries. The Government emphasises strongly the need for predictability of budget support disbursements. Delay of budget support has normally more serious budget liquidity effects than delays in projects. Budget support is by many donors considered to be a more “political” modality, and therefore risks volatility, should events occur that are considered to be contradictory to the basis for the long-term co-operation, in particular if it becomes a domestic political liability in the donor country.

In chapter 5 we look into the role of the PER process in the budget system and its implications for aid harmonisation. PER increases Ministry of Finance’s influence over the budget. It also improves the domestic dialogue on budget issues and PRSP implementation. There is a need to improve harmonisation of the PER process to the domestic budget process, overall programmes and sector support to the PER process. Several factors like difficulties in handling cross-cutting issues, weak data quality and imprecise definition of priority sectors reduces PER’s influence on the budget formulation. A weakness of the PER process is that the democratic structures, in particular the Parliament and locally elected assemblies, are not sufficiently involved.

Chapter 6 contains a brief comparison between the recent development in Tanzania and the commitments made in the Rome Declaration on Harmonisation in February 2003. The general conclusion is that the situation in Tanzania is close to these commitments, and that the potential for full implementation is high.

Finally, in chapter 7 we suggest a number of responses to our organisations based on the experiences from Tanzania. Of the listed 21 responses we would argue that the following five are the most crucial:

- Inclusiveness and transparency are important, also between donors. To further improve the co-operation climate, the discussions should be brought to a wider group than those directly involved as soon as possible. Furthermore, non-basket donors should not be excluded, as the aim should be as much co-ordination and harmonisation as possible, between all donors.
- Budget support and basket programme support strengthen the government ownership and changes its quality. At the same time the main donors get better insight in central government processes. To contribute to the building of mutual trust, it is important that donors see budget support and SWAps as long-term commitments and develop instruments to avoid stop-go situations.
- The ongoing move towards programme modalities should coincide with a more rapid reduction of the project aid.
- Norway and Sweden should look out for the risk of process overload and raise this issue in the various harmonisation forums. Out of the programme modalities emerge new processes. They have to be merged and harmonised to the greatest possible extent. It is also important that the number of projects is significantly reduced when programme modalities are introduced.
- To be able to contribute constructively and have an impact on the processes of harmonisation, alignment and new aid modalities, smaller donors need sufficient capacity at the local level. High capacity at the local offices and better networking within and between the aid agencies are required.

## 1. Introduction

This report is an attempt to systematise experience in the field of new aid modalities and their interplay with donor harmonisation. It is based upon our experience in Tanzania as economists at the department of development co-operation in the Embassy of Norway 1999-mid-2003 (Tone Tinnes) and Embassy of Sweden 2001-mid-2003 (Bertil Odén).

In our presentation we focus on the links between the harmonisation efforts and a number of new aid modalities and issues like improvements in donor-government relationship, consequences for transaction costs, harmonisation of budget support and links to the Public Expenditure Review. The questions to be answered are “Why so significant improvements over a few years?” and “What can we learn from the experiences?”

Our focus on progress does not imply that we want to hide the fact that there is a lot more to do in order to further improve the level of harmonisation and integration of external resources in the Tanzanian budget system. The overall picture is also fragmented. The ownership of the processes taking the new aid modalities and the harmonisation forward is still fragile and partly depending on the commitment of a few individuals, and the multitude of reforms and processes must be carefully considered in order to avoid overloading the Tanzanian authorities.

Part of the change can be explained by trends at the international level. Most readers involved in harmonisation of development co-operation, budget support and sector support in other countries will certainly recognise many of the experiences we present in this report.

Our impression is, however, that some of the processes have been taken further in Tanzania than in many other countries. They may therefore be of interest as an empirical input in the ongoing discussion on these issues. On the other hand, we are also aware that “one size does not fit all”, in this case that experiences from Tanzania may not be relevant in countries, in which the policy framework and government structures are too different.

The narrow definition of the target group for this report is our colleagues at the headquarters in Oslo and Stockholm, who are involved in the two issues of programme aid and budget support modalities and harmonisation of development assistance, together with colleagues in other field offices. Basically the report thus should be considered as feedback from the field, providing empirical material into the policy discussions and perhaps also providing some food for thought in other countries than Tanzania.

A slightly wider definition of the target group includes colleagues and partners in Tanzania, and possibly the ongoing discussion on harmonisation at the international level, e.g. in DAC.

The report aims at providing empirical input, therefore we have not included upcoming events such as the preparation of a second PRSP, or the preliminary discussions on the possibilities for a joint Country Assistance Strategy, CAS.

It should also be noted that the report is about the mutual relations between harmonisation, alignment and the new aid modalities. Its aim is not to assess broader issues, such as the outcome for the poor of the Poverty Reduction Strategy, the Public Expenditure Review and other policies and processes.



We believe that there are four underlying factors, which to a large extent explain the willingness in recent years of many aid agencies to move forward on aid harmonisation and new aid modalities in Tanzania. They are political stability, macroeconomic stability, increased economic growth and confidence in the Tanzanian commitment to public sector reforms. Other explaining factors in the harmonisation context are a stronger commitment among key people in Tanzania to take the lead, the decentralisation of decision making to the field offices of the aid agencies and staff committed to harmonisation in Government and aid agency offices. There is also agreement between most donors and the Government that the Poverty Reduction Strategy and the Tanzania Assistance Strategy, should be the main basis for the co-operation.

In the international discussion the concepts *aid harmonisation* and *alignment* are frequently used. We define aid harmonisation as the co-ordination and merging of processes, institutions and systems among the aid agencies. The ideal is that the harmonisation among donors is led by the relevant Government Authority and is an integral part of the Government institutions and systems. Similarly aid alignment is defined as development assistance coherence with and integration in systems and institutions of the receiving country, with special focus on the Poverty Reduction Strategy.

In Tanzania, as well as in many other countries, the discussion on the issues covered in this report is studded with acronyms. The reader may not believe us, but we have made a serious effort to reduce the number. Still, there are many left. For those not familiar with the Tanzanian scene, a few of them should be briefly explained already at this stage:

- **PRS** is the Poverty Reduction Strategy adopted by the Government of Tanzania and basis for much of the policy on poverty reduction in the country.
- **PRSP** is the Poverty Reduction Strategy Paper. This is the document required for debt relief under the Highly Indebted Poor Country Scheme, in which targets for resource allocation and outputs are set.
- **TAS** is the Tanzania Assistance Strategy, providing the framework for the development co-operation when it comes to procedures, responsibility and ways and means to reduce the transaction costs.
- **PER**, the Public Expenditure Review, is the process through which the Government, some donors and some Civil Society Organisations together participate in and monitor the national budget process.
- **PRBS** is the budget support scheme, through which presently eleven aid agencies channel their budget support.
- **PRSC** is the World Bank budget support credit.
- **SWAp** is the Sector Wide Approach, through which some aid agencies channel their contributions to a specific sector. The instrument for this is normally a sector basket.
- The local **DAC Group** is the name of what often is called “the donor community” in the country. It has been an important instrument for harmonisation among the donors.
- The **Exchequer system** is the Government’s budgeting and accounting system.

Finally, we want to express our appreciation to our colleagues Per Lundell, Berit Rylander, Ann Stödberg, Inger Tveit, Lennart Wohlgemuth and Gunnar Foreland for their very useful and constructive comments on an earlier draft of this report. As usual, the authors are the only ones to blame for mistakes and misunderstandings.

It should also be put on record that the report reflects only our own impressions, interpretations, conclusions and suggestions. It does not in any way commit our organisations NORAD and Sida.

Oslo and Stockholm in October 2003.

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## 2. Improved Government - donor relationship

### 2.1 Introduction

The government-donor relations in Tanzania has gone through and recovered from serious but infrequent crises and is presently focusing on and trying out a wide range of measures to improve harmonisation, alignment and enhance government ownership. Today, co-ordination among donors is high and can be characterised by broad inclusiveness and an eagerness to harmonise further.

In this section we look at factors that have been crucial for the increased trust, upon which the present good relations are based. The experience in Tanzania, can be summarised as follows:

- Independent Monitoring, from the first Helleiner Report in 1995 and onwards, initially opened the relations between the Tanzanian Government and the aid agencies and provided constructive suggestions for further improvement.
- Stable political leadership, key government authorities and individuals that have shown a strong will to take the lead in the development co-operation have been important for building the trust;
- New aid modalities, notably programme aid in various forms, have both been a response by donors to improved Government policies, spurred further policy improvements and provided platforms for continuous policy dialogue. It has strengthened the Government ownership and changed its quality. At the same time the main donors have got better insight in central government processes;
- A specific Tanzanian experience has been the inclusiveness and transparency among donors in the harmonisation process. The DAC forum, individual like-minded donors and Government have all contributed to this development, which has included all donors in the effort to harmonise;
- A contributing factor to the improved aid harmonisation and alignment has been the transfer of responsibility and decisions to the local offices of some key donor agencies. This has facilitated a more flexible and rapid interaction with the Government and among themselves.

### 2.2. Background

Tanzania was a favourite of the donor community during the days of the late President Nyerere in the 1960es to the early 1980es. Large amounts of aid were disbursed and a long tradition of aid dependency was established.

Two crises partially interrupted this deep relationship of aid co-operation. The first one happened in relation to the breakdown of the state-led economy of Tanzania in the early/mid-1980s. Due to the critique by IMF on the economic policy of the Government, the donor community felt it gradually more difficult to support Tanzania. In 1985, president Nyerere left his post and in the following year the stabilisation policy of the IMF was introduced. After that the relations improved again.

The second crisis occurred in 1994 when donor, and particularly IMF, concerns over poor fiscal discipline, corruption and tax evasion led to a freeze of programme aid and structural adjustment programmes. The crisis coincided with completion of a series of donors' project/programme evaluation reports, generally with negative assessment of aid effectiveness.

Although the acute national fiscal aspects of the crisis were overcome by mid 1996 the problems concerning application of democracy in Zanzibar continued to mar the relations between the Government and donors, with a consequent freeze on aid to Zanzibar's Government by many of the principal donors. The questioned fairness of the elections in Zanzibar in 2000 and crackdown on the opposition led to continued aid freeze in the islands. Conclusion of a co-operation and reconciliation agreement (Mwafaka)<sup>1</sup> between the Government of Zanzibar and the main opposition party during 2002 and 2003 appears to have led to a full resolution of the crisis and resumption of normal aid co-operation.

### **2.3 Factors behind the improved relations between Government and donors**

#### *Independent monitoring*

In 1994, the Nordic countries, with Denmark as the driving force, took an initiative to improve relationship and started a process that led to the appointment of a group of independent advisers under the leadership of Professor Helleiner. The Helleiner Report, published in 1995, set out a list of 22 recommendations for improvement in the relationship between donors and the Government and steps to be taken by the Government, with assistance from the donor community, in order to strengthen its internal systems and processes. Based on the Helleiner report and following a change of government in 1995, a dialogue between the Government and donors was initiated in 1996.

#### *Box 2.1. Main message from Independent Monitoring Group's report of 2002*

The main message from the Independent Monitoring Group's report presented at the CG meeting in Dar es Salaam in December 2002:

Government-donor relations have improved. By comparison with 1995 and even as recently as the Helleiner report of 2000, donor-government relations are much improved. The donors now have greater trust in Government and they have responded in various ways to improve their own policies and practices. However, the improving trend should not lead to complacency, for there is still much room for improvement.

To achieve further progress, the report states that:

- (i) The government 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, through the Tanzania Assistance Strategy (TAS). While it is a very welcome initiative of much potential value, 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 government should take the lead, aligning processes more around the budget cycle and focusing efforts more around the Poverty Reduction Strategy Paper and further developed budgetary processes.

<sup>1</sup> An agreement from October 2001 between the governing CCM party and the main opposition party CUF in Zanzibar, to sort out the situation after police had killed 31 people in connection with a demonstration in January 2001 to protest against alleged fraud in the elections that took place in 2000, and to reconcile the two parties.

Reports assessing the progress on both sides were presented to the Consultative Group 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 government and donors jointly appointed an Independent Monitoring Group (IMG). Several donors, among others Norway and Sweden, financed the work of the Group that was undertaken during the 2002 and presented at the CG meeting in Dar es Salaam in December 2002 (see box 2.1).

The IMG report recognised the significant improvements of the aid relations during recent years and provided 35 recommendations aiming at further harmonisation and alignment through its focus on actions needed both from government and donors. Based on its independent role, the report brought up sensitive issues for discussion among donors and between donors and government.

#### *Substantive reforms and strengthened financial management*

Major reform programmes in the civil service and local government, adoption of a National Anti Corruption Strategy, substantial improvements in public financial management and the new Government Procurement Law have contributed to improve the donor - government relationship.

President Mkapa put corruption on the agenda by initiating and publishing the Warioba report in 1996. The follow-up of the report has focused on improving the financial systems to prevent corruption and only limited progress has been made on investigation and prosecuting incidents mentioned in the report.

#### *Government leadership in setting agenda for policy to fight poverty and preferred aid modality*

The formulation of the Poverty Reduction Strategy Paper (Interim PRSP in February 2000, full PRSP in October 2000 and HIPC Completion Point approval in November 2001) gave a better clarity on the Government's strategy to economic and social development. It also provided a better basis for policy dialogue in forums like the Consultative Group meeting, the Poverty Policy Week, the Public Expenditure Review and at the sector level.

In 1999, the Tanzanian Government started the process of formulating the Tanzania Assistance Strategy (TAS). A first draft was ready in 2000, but the process was delayed as focus and efforts were directed to finalising the PRSP. TAS was launched in June 2002 and provides a framework for improving aid co-ordination and enhancing national ownership of the development process in Tanzania. It seeks to ensure that external resources are effectively managed in order to achieve the national development strategies and the Poverty Reduction Strategy. TAS articulates the national development agenda and policy framework as well as best practices in development co-operation and a system for monitoring Government and development partners' progress towards achieving these objectives. The TAS is a three-year strategic document with an annual evaluation of progress (Box 2.2 gives an overview of monitoring indicators). An action plan has been formulated and a joint TAS/DAC Group secretariat is handling the operations, including preparation and follow up of regular meetings led by the Ministry of Finance, in which Tanzanian authorities and DAC group members participate.

While PRSP defines sectors to be prioritised, TAS sets out how aid best can contribute to reaching this aim by reducing transaction costs. With TAS, the Government aims at restoring local ownership and leadership in the design and implementation of aid funded development programmes. Government has also made a particular effort to incorporate the main donor concerns such as promotion of good governance, transparency, accountability, capacity building and effectiveness in the aid delivery.

TAS and PRSP documents have given an improved basis for dialogue both on selections of sectors and aid modalities and harmonisation. Both in formulation of the strategies and follow-up, there were close consultations between Government and donors and to a certain degree also other stakeholders.

*Box 2.2. Monitoring indicators for Tanzania Assistance Strategy*

- The degree of government leadership in developing policy priorities, strategic frameworks including institutionalised co-operation mechanisms in different areas and sectors.
- The degree to which the Government is involving civil society and the private sector in developing national policies, strategies, and priorities.
- The degree to which the Government is prioritising and rationalising development expenditures in line with stated priorities and resource availability.
- 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 disbursement is responsive to exogenous shocks to the Tanzanian economy.
- The degree to which donor policies complement domestic capacity building efforts.
- The degree to which firm ODA commitments are made for longer time periods.
- Improvement in public financial management by Government.
- The degree to which the Government has created an appropriate national accountability system for public expenditure.
- The degree to which ministries, regions and districts receive clean audit reports from the Controller and Auditor General.
- The degree of transparency in reporting and accountability both at the national and sectoral level.

*From project aid to SWAps and budget support*

The move from project aid to various forms of program support has accelerated since 1999. With the agreement between World Bank and the Government in 2003 on a new budget support facility (PRSC), more than 25 per cent of total aid is channelled as budget support. Sector basket funding is implemented in health and education, is under preparation in agriculture and a sector program for rural roads is also being discussed. Basket funding is used for support to the Local Government Reform Program and various parts of the Public Sector Reform Program. In other sectors there are a high degree of co-ordination among the donors and forum for joint dialogue between government and donors is established.

The move to budget and sector programme support, implied reduction in tied aid and a shift towards non-earmarking of funds and pooling of technical assistance. This resulted in increased ownership in programme implementation by the Government's institutions as illustrated by this example; while Ministry of Health previously provided a list of items

needed and donors purchased and supplied the items, the Ministry in 2002 was able to advertise internationally for its requirements.

It has been a trend among donors to reduce long-term technical assistance in favour of short-term and to make this type of support more demand-driven. Several programmes (for example Public Expenditure Review basket and the Local Government Reform Programme) have pooling arrangements for technical assistance.

#### *Improved integration of donor assistance in the budget*

The creation of Ministry of Finance's Aid Flows Database in 2001 has increased the share of donor assistance recorded in the budget. Today almost all support provided to central government is included, while an attempt to include support provided directly to the district level is ongoing.

Another aspect is donor assistance registered in the government accounts. All budget support and sector basket support are channelled through the government system and thereby accounted for. In 2002, Ministry of Finance requested donors to channel project funds through its financial system (Exchequer System) or at least improve reporting so that project funds disbursed in to specific project accounts could be accounted for. As a result, the coverage of project aid inflows in the budget improved in 2002/03. However, reporting of technical assistance and some of the projects still remains a weakness.

#### *More forums for government-donor dialogue*

New aid modalities have been an important factor for more and strengthened forums for dialogue. Table 2.1 lists the different forums for dialogue on overall and sector level, headquarters participation, topics that are discussed and frequency of meetings. On the overall level, the forums include the Consultative Group meeting, Poverty Policy Week and Public Expenditure Review Consultative Meeting. One important aspect is that the overall forums are open to CSO and private sector representatives.

*Table 2.1. Overview of forums for dialogue.*

<b>Forum</b>	<b>Headquarter participation</b>	<b>Topics</b>	<b>Frequency of meetings</b>
<i>Overall level:</i>			
Consultative Group	Yes	Good governance, macro economy, poverty etc.	18 months interval
Poverty Policy Week	No	Draft PRSP progress report, Poverty and Human Development Report	Annually (September)
Public Expenditure Review	Partly	Medium-Term Expenditure Budget, PER sector reports, PER external evaluation report	Annually (May)
<i>Budget support and sector baskets:</i>			
Budget support facility (PRBS)	No	Monitoring of progress	Three annual meetings/reviews
SWAp (health and education)	No	Monitoring of progress	Annual review, quarterly meetings
Local Government Reform Program (LGRP)	No	Monitoring of progress	Annual review, quarterly meetings
<i>Sector level:</i>			
PER sector working groups	No	Sector studies	Differs, several over a year
Other government – donor sector groups	No	Ongoing programs/projects, sector issues in general	Differs, but often several times a year

New aid modalities open up new dialogue arenas both between Government and donors and among donors. The programme level includes forum for dialogue linked to budget support facility, SWAps on health and education and Local Government Reform Program. In addition, joint government-donor groups have been established in most sectors by harmonising DAC sub-groups with sector donor-Government forums. As seen from the table, donors are represented by field office, except for Consultative Group meetings and less frequently at PER Consultative Meetings.

*Inclusiveness and transparency on the donor side*

A characteristic of the donor-government relationship in Tanzania has been the inclusiveness on the donor side and the flexibility of donors to align to government systems and procedures.

All development partners meet monthly in the local DAC group. World Bank and UNDP co-chair the meetings and UNDP provides the secretariat. There have been several DAC sub-groups, but these are now with some exemptions transformed to joint donor-government groups.

The role of the local DAC Group has gradually changed from being a forum for information sharing dominated by UN-organisations to a discussion forum for harmonisation and donor co-ordination. The traditional role of the UN-organisations has been downplayed and World Bank, UNDP and some like-minded bilateral donors have set the agenda. An interesting aspect is however that "not so like-minded" donors and UN-organisations have been taking active part in the harmonisation discussion and have been willing to move in this direction.

Some donors like the World Bank, UNDP, EU Commission and DFID are more active in setting the agenda and have stronger influence. Even though discussions are taken broadly, some donors are more involved than others in the informal preparation phase leading to open and inclusive DAC discussion. Sweden, Norway and Denmark have traditionally been active. The restriction to influence in the DAC Group for countries like Sweden and Norway is, however, lack of capacity for preparation, rather than lack of openness on the side of the DAC Group.

The local DAC Group's involvement in harmonisation issues has also been due to UNDP's active role and capacity, both internally and externally. UNDP has one person responsible for DAC Group Secretariat and harmonisation issues. This position is co-financed locally by UNDP, Sweden and Norway.

A Code of Conduct or Terms of Reference for the DAC work is under preparation. The main aim is to improve information in order to avoid for instance that major missions arrive without main partners are informed, to facilitate division of labour and systematise and simplify the relations between the Government and the donors. The Government strongly argues for further development of the lead donor role.



### 3. New modalities and transaction costs

#### 3.1. Introduction

The increased mutual trust between the Government and the donor community that emerged from the development referred to in the previous chapter has encouraged the aid agencies to consider changes in their aid modalities. When the Multilateral Debt Relief Fund, MDF, became obsolete after Tanzania had reached the HIPC decision point in year 2000, a number of aid agencies agreed with the Government to replace it with budget support. Preparations in the late 1990s for co-operation based on a Sector Wide Approach and other basket arrangements resulted in agreements and subsequently new basket initiatives were taken. These modalities have an in-built tendency to generate harmonisation between those providing the resources. In this chapter we focus on Sector Wide Approaches and other more limited basket arrangements, while the Budget Support modality is discussed in the next chapter.

Some of the main experiences during recent years in this field are:

- Ownership is key. A change from project to programme modality involves changes of influence and a new way of thinking. If the Government authorities involved are not committed and convinced of the advantages of a change, the risk for delays and lack of sustainability is high.
- If the ongoing move towards programme modalities does not coincide with a corresponding reduction of the project aid, total transaction costs may increase on both sides.
- There are dangerous signs of “process overload”. The rapid increase of programme aid modalities has increased the number of new processes linked to the monitoring of the programmes, which are not sufficiently harmonised between themselves nor aligned in the budget and financial management systems.
- Baskets cannot be micro-managed by the donors without negative consequences for the co-operation climate.
- When new baskets and pooling arrangements are established, there is a tendency among the participating donors to add all their individual conditions and monitoring indicators into the basket system, which rather would add to the transaction costs. This tendency also tends to delay the launching of a new basket scheme (e.g. for primary education).
- When starting new basket schemes, experience from other baskets was only partly used. The experience was not systematised by the Government or by the donors.
- The experiences from baskets of labour sharing between donors, including the lead donor and joint secretariat concept, are positive. There is a potential for further development in this field.

#### 3.2. The expansion of programme aid and basket funding

During recent years the share of total development co-operation which uses programme or basket modalities almost doubled. In 1999 the share of debt relief through the Multilateral Debt Fund and programme aid was estimated to be around 25 per cent of the total aid flows. IMF has calculated that the total sector basket and budget support will reach 464 million USD in FY2002/03 and 515 million USD in FY2003/04, which correspond to between 40 and 50 percent of the total aid inflow to the Government.

The establishing and implementation of budget support has been one of the key instruments for an improved harmonisation. Harmonisation and other related processes linked to the budget support are discussed in the next chapter.

At the sector level, SWApS or sector baskets have been formed and eventually also implemented in the fields of health, education and for the Local Government Reform Programme. After years of discussions on agricultural reforms and a failed attempt to form a SWAp, preparations to form a sector program for the agriculture sector are ongoing.

Basket or pooled funding has also been tried in other co-operation areas, such as the Poverty Monitoring System, Public Expenditure Review, the Independent Monitoring Group and the Legal Reform Quick Start Program. There are also ongoing discussions regarding basket funding of the Public Finance Management Reform Program

A number of donors have pooled funding in order to support the capacity to carry out diagnostic work for Zanzibar. Similarly, eight aid agencies have pooled their resources to support the implementation of the Memorandum of Understanding for the Mwafaka Agreement between CCM and CUF in Zanzibar.

Formal or informal working or co-ordination groups between donors are established in a number of other sectors, e.g. roads, forestry, governance, gender, internet communication technology, private sector development and micro finance. Depending on circumstances some of them have and more may develop into SWApS or other modes of pooled funding. Experience from recent years is also that many of the donor sector groupings merge with corresponding Tanzanian ones, for instance those on roads and on aid harmonisation. Table 3.1. summarises the main harmonised aid arrangements in Tanzania.

The development in Tanzania should also be seen in the context of an international trend to increase budget support and SWApS. The processes that emerged in order to implement these modalities in Tanzania have on the whole been promising. Public Sector Reforms, including Public Finance Management, are making progress, but need to be more firmly established. The Government ownership has gradually increased, but donors' influence, and in some cases particularly that of the World Bank and the IMF, is strong.

The attitude of the Government has been clearly stated both at CG-meetings and on other occasions. Budget support is the preferred modality. The Government attitude towards sector basket funding is a bit ambiguous. While the Ministry of Finance strongly argues for budget support, the line ministries are more interested in sector basket funding and even project support. These modalities also provide the line ministries with more influence than budget support.

Government acknowledges, however, that project funding sometimes is necessary, because some aid agencies are not allowed under their present regulations to provide aid in other forms. It is very rare that the Government declines any offer of development assistance, due to the suggested modality.

Table 3.1. Main harmonised aid arrangements in Tanzania

Arrangement	Sector	Participating donors
Budget Support	National budget	(PRBS): Canada, Denmark, EU, Finland, Ireland, Japan, Netherlands, Norway, Sweden, UK, Switzerland. Co-ordination with World Bank PRSC.
SWAp	Health	Denmark, Germany, Ireland, Netherlands, Switzerland, UK, World Bank (Norway until 2002).
SWAp	Primary Education (PEDP)	(Pooled fund): Belgium, Canada, EU Commission, Ireland, Netherlands, Norway, Sweden. (Direct budget support): World Bank
SWAp	Local Government Reform, LGRP	Denmark, EU, Finland, Ireland, Netherlands, Norway, Sweden, UNDP, UK
Emerging SWAp	Agriculture	Japan (lead), Denmark, EU, Ireland, World Bank. Sector working group exists. Programme draft being appraised. Earmarking or basket not yet decided.
Sector Dev. Programmes	Tax Admin. Programme	World Bank (lead), Denmark, EU, Finland, GTZ, Sweden, UNDP, UK, USA.
Sub-sector pools between donors	Public Finance Management Reform	Updating in progress based on CFAA. World Bank, EU, UK, Sweden, Switzerland, Norway.
	Legal Sector Quick Start Programme	Canada (lead), Denmark, Finland, Netherlands, Norway, Sweden
	PER Basket	Denmark, Norway, Sweden, UNDP, UNICEF
	Poverty Monitoring System	Denmark, DFID, Japan, Norway, Switzerland, UNDP, UNICEF, USAID
	Independent Monitoring Group	UNDP (lead), UNICEF, Denmark, Ireland, Finland, Germany, Netherlands, Norway, Switzerland, Sweden, USA
	Diagnostic Work in Zanzibar	UNDP (lead), World Bank. ADF, DFID, Sweden.
	Implementation of Mwafaka agreement	Canada, Denmark, EU Commission, Finland Netherlands, Norway, Sweden, UK, UNDP.

Source: Ronsholt (2002) and own amendments.

### 3.3. SWAps in Tanzania

This section is deliberately highly condensed. The intention is not to give historical accounts of the SWAp processes, but to exemplify features relevant in the aid harmonisation perspective.

#### *Primary education*

Tanzania and a number of developing partners have co-operated in the field of primary education for a long time, mainly in the form of donor driven project or individual bilateral programme support. In 1995 a SWAp process was unsuccessfully initiated. It was largely donor led and the aid agencies were concerned that the Ministry of Education and Culture showed little commitment and had no capacity to meet the demands for change of modality. In 1999 and 2000 efforts were made in order to revive the process and in late 2000 the SWAp process restarted. A Primary Education Development Plan, PEDP, covering the period 2002-2006 was formulated and approved by relevant Tanzanian authorities in July 2001. This

development was highly influenced by the HIPC debt relief promise, pressure from the NGO community and not least the involvement of the President.

The process was delayed because the basket donors were not fully prepared to harmonise. Instead most of their conditions and monitoring instruments were added to each other, which would have increased rather than reduced the transaction costs for all. When the process dragged on, Sweden in December 2001 agreed with Tanzania to make a bilateral agreement outside the Basket as sector budget support. When the Basket (called “pooled fund”) finally was established, Sweden joined the other donors in the basket in April 2003.

In May 2003 seven aid agencies had changed their modalities from project support to a SWAp. The basket donors together with the World Bank are committed to contribute 120-130 million USD per year, which corresponds to around one third of the total basic education expenditure.

The co-ordination of the donor network is handled by a joint secretariat. A continuous consultative process among the donors ensures that the co-ordinator acts on behalf of the group. This is a time-consuming activity for the donors, but compared to a situation where all aid agencies had individual agreements, missions etc., it is considered to reduce the overall transaction costs.

One concern is that the PEDP activities are not sufficiently aligned to the PER process. In order to improve the co-ordination a Code of Conduct in the form of ‘Working Principles’ has been agreed by all the contributors to PEDP.

Separately from the SWAp, an IDA credit for support to the PEDP was agreed with the Government. The World Bank’s domination both in the formation of the PEDP and the SWAp generated critique among other aid agencies. However, it also resulted in setting the SWAp modality in motion, after a period of stagnation.

### *Health*

In 1998 the Ministry of Health and a number of donors agreed to pursue a SWAp to support the Health Sector reform. The funding mechanism, the Health Sector Basket Fund, is supported by seven aid agencies. Basket funds are channelled to the Ministry of Health and to the Local Councils.

Experiences so far are mixed. In the beginning the aid agencies had a tendency to micromanage the SWAp, almost as if it was a project. The basket procedures were not sufficiently harmonised with Government processes and reporting requirements differed substantially, partly due to donor reluctance to trust the commitment and capacity of the Ministry. The joint activities only involved the basket partners and the government involvement was limited. More recently, joint activities by the donors have reduced the number of monitoring and review missions, the processes have become more open and more linked to Government processes. As in the case of primary education, the health SWAp is not sufficiently aligned with the PER process.

In early 2003 DFID and the Government agreed that the last tranche of the DFID support to the Health Sector Basket for Fiscal Year 2002/03 instead should be channelled as budget support through the PRBS. This was in line with the Government’s view that external

resources to the priority sectors of the PRSP should preferably be channelled as budget support, rather than through sector baskets.

The logic in providing aid to the same sector through two different modalities is not very clear. Sector interests on the donor side often argue that SWAp provides better opportunities to support reforms at the sector level. If the funding is channelled through a more general budget support, the donor influence will be reduced, as the line ministry will be less interested in the advice. Under PEDP, DFID has had strong donor involvement, but has not, as in the case of health, channelled funds through PRBS. It will be interesting to see if DFID will be able to keep a high profile at the sector level when the money is channelled through the PRBS.

DFID is the first donor taking this step. Should more donors follow, the budget process will be strengthened, together with the position of the Ministry of Finance versus the line ministries.

#### *Local Government Reform*

In 1999 a Local Government Reform Basket Fund, LGRB, was established, in order to reduce transaction costs of development co-operation to the Local Government Reform Program. Currently nine donors support the fund.

This basket is similar to the SWAp-related baskets, but less complex. LGRP is functioning more like a donor-funded pooled project than a sector programme, the Government contribution is limited and the implementing Reform team in the Ministry can be compared with a project unit, with the usual concerns regarding ownership.

One of the donor concerns has been that the programme budget has strongly exceeded the actual expenditure. Donors have funded according to budget, thereby the Reform Team in practise has been able to choose what parts of the budget to implement while the donors have been excluded from the prioritisation process. The incentive to use the funds in a cost-effective way has also been weak. Recently the planning and budgeting have improved, and the management responsibility may be moved from the special team to the ministry structures.

### **3.4. Other basket arrangements**

As was shown in the introduction of this chapter a number of baskets have been established for programmes/schemes, which mainly consist of technical assistance and capacity building. The intention is to improve the Tanzanian ownership, integrate more external resources in the Tanzanian systems, partially untie technical assistance, reduce transaction costs and make the activities more sustainable.

#### *Public Expenditure Review basket as an example*

Most consultant studies and other capacity improvement in connection with the annual Public Expenditure Review (PER) process over the first years were provided by individual aid agencies, which commissioned consultants, mostly from their own countries, or provided other resources on an ad hoc basis. In 2002, Denmark, Norway and Sweden suggested that their resources should be channelled to a basket, which could be used by the Ministry of Finance, in co-operation with relevant line ministries, to commission studies or to other activities included in the PER process. UNDP and UNICEF have subsequently joined the PER Basket.

The experiences so far of the PER basket can be summarised as follows:

- The ownership has increased. Ministry of Finance, in co-operation with the relevant line ministry or other Government authority, is responsible for the implementation, within an agreed regulatory framework.
- The ownership of the line ministry/authority has increased, as it has to take the responsibility of the content and suggestions of the study as well as present it to the PER Working Group.
- Part of the transaction cost has been transferred from the donors to the Tanzanian authorities, which now are responsible for procurement and carrying out of the studies and the accounting. Donors' role is to monitor that the agreed rules for the fund are followed.

### **3.5. Transaction costs**

The change towards programme support and in particular budget support has been strongly encouraged by the Government. Leading representatives, including president Mkapu at the CG-meeting 2002, have argued for such a change. The Tanzania Assessment Strategy, TAS, also encourages budget support, although an earlier draft was more explicit on that point than the final version of the document.

It is easy to understand the reasons behind this attitude. The Government has over a long period experienced a poorly co-ordinated proliferation of individual projects, which has tended to undermine fiscal discipline and eroded expenditure management systems by circumventing regular budgetary procedures. The recurrent cost implications of investments have been badly controlled. Many projects have failed because the milieu in which they operated had systemic and policy weaknesses. In short, transaction costs have been high, mainly for the aid agencies. Information has not been shared with the Government and government ownership has often been low. This does not exclude that the effect of some projects has been successful and that the project modality sometimes may be the only possible.

A basic donor argument for the project modality is the need to protect the projects from a non-enabling development environment. It may sometimes be successful, but often the sustainability of the project and the Government ownership are eroded. Donors also increase their own transaction costs.

The programme aid modality, and in particular the budget support, has the potential to avoid many of the drawbacks of project aid. Resources are pooled and co-ordinated, monitoring systems are common for many donors, aid resources are untied, resources are channelled through the government systems. In short: Total transaction costs are reduced and government ownership increases.

We are confident that the reader of this report is familiar with the international discussion on this issue, but thought that we should provide a very brief reminder before giving some examples on the links between new aid modalities and transaction costs in Tanzania. It should also be noted, that the conventional wisdom reflected in the previous paragraphs is challenged by some scholars, who argue that the transaction cost discussion is based on weak empirical evidence.<sup>2</sup>

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<sup>2</sup> A recent example is Tony Killick (2003). "Macro-Level Evaluations and the choice of aid Modalities". Conference Paper. July. Operations Evaluation Department, World Bank.

As argued later in the text, sector baskets and budget support generate new processes. If they are introduced without a corresponding reduction of the project activities, transaction costs may well increase. And it is almost inevitable that they increase during the initial phase, when the processes are under construction.

Changing aid modalities may also move the transaction costs from one Government authority to another. One example on the donor side is from some of the smaller and more passive agencies to those with strong capacity and commitment. Within the aid agencies more efforts are required from macro specialists and less from those involved in traditional project preparation and administration. Sector competence is highly important, but often takes different forms in sector basket support than in project support. As more of the process in the programme modalities is carried out jointly and together with the partner country authorities, there is also a change regarding the type of backup that the field offices need. All this affects organisation and competence also at the headquarter level.

On the Tanzanian side for instance the budget facility (PRBS) has moved transaction costs from the line ministries to Ministry of Finance and to a certain extent to the President's Office (PO-RALG) and the Vice-President's Office, through the link to PRS. The establishment of joint processes takes much efforts and time from the involved Tanzanian authorities. Sector baskets may move transaction costs from donor driven and donor-staffed special project units to the "ordinary" Tanzanian system. In a sense the transaction costs are moved from the donors to the Government. At the same time, this increases ownership and the potential for sustainability. Furthermore, if a sector programme with joint procedures replaces a number of bilateral projects/programmes with their own procedures the transaction costs on the Tanzanian side will also be reduced.

A situation with many more scattered projects, including their separate administrations, has high administrative costs. Because they are scattered over many agents and authorities they become diffused, and they are therefore not as visible and not so strongly felt on the Tanzanian side.

In the donor community we sometimes heard complaints about the increasing transaction costs that emerged out of both the PRBS and the SWAp. The experiences from the most recent years are of course influenced by the fact that it has been a period of establishment of new processes and programmes. The intention is that when functioning, the programmes will reduce transaction costs on both sides. So far it is too early for firm conclusions. What can be said is that the potential for reduced transactions costs is high.

#### *Sector baskets*

The health SWAp was the first of its kind in Tanzania. The initial stage shows clearly that micro management by donors is not compatible with the basket modality and may have counterproductive effects on ownership and the behaviour of the partner authority. More recent experience is that with common reporting and joint missions, transaction costs can be reduced on both sides and the level of ownership can increase, also because more resources are channelled through the exchequer system. The overview and accountability is thereby also improved for a significant part of the external resources going to the health sector. With significant resources coming from non-government sources (churches and others) and with continuation of project funding parallel to the basket funding, there is potential for further reduction of transaction costs.

When the Primary Education SWAp was about to be constructed, experience from the health sector was used, although many argue the links were too weak. As already mentioned, the add-on effect was strong also in this case. Eight donors were interested to contribute and most of them had a long list of requirements to be negotiated, based on their own national requirements. The discussions continued over a long period and the release of funds was delayed. A Task Force was formed with members from the Government and a few donors, and elaborated a Memorandum of Understanding, and in early 2003 the basket could start functioning.

#### *Other baskets*

Basket funding for technical assistance has facilitated increased ownership and alignment in the budget process, untied technical assistance and in particular opened for the involvement of Tanzanian staff. Transaction costs may increase or decrease. The PER basket has transferred transaction costs from donor agencies to Tanzanian authorities, as the responsibility for procurement and implementation has moved to them. The basket for diagnostic work on Zanzibar, on the other hand, uses the lead donor model and the procurement of the consultants is with the lead donor (UNDP). This means less transaction costs for all the other donors and probably also less transaction costs on the Zanzibar side.

#### *Division of labour and the concept of lead and silent partner*

Budget support and sector programme support also raises the issue of division of labour and the role as lead and silent partner. This is used in various forms in Tanzania. The PRBS donors have developed a close co-operation and division of labour. The lead of the PRBS group and SWAPs are rotating. It saves time and effort if one or two donor agencies are responsible for contacts with the relevant Tanzanian authorities on behalf of the whole group.

The above-mentioned labour sharing is also used within the PRBS group in the relations with the World Bank and IMF. It strongly facilitates participation in major reviews, such as the annual PER external review as well as when linking up the PRBS processes with those of the PRSC.

It could be argued that the transaction costs on the donor side could be further lowered if the silent partners totally delegated the implementation to a lead donor and just received regular reports. However, sector and budget support normally has a stronger policy content than projects. Many aid agencies are therefore reluctant to take the role as totally silent partner.

The primary education pooled funding has a secretary for the donor group, who co-ordinates and keep routine contacts with the Ministry. Although many issues are discussed within the whole group and co-ordination efforts are time-consuming, it is felt that overall significant time is saved, compared to a situation when all donors had their individual contacts with the Government authorities. For the Ministry of Education the time to discuss with donors is significantly reduced. On the other hand more efforts are needed to handle the PEDP resources in the Government system.

#### *Integration in the budget system*

From a Government view, one of the main advantages with programme support and in particular budget support is that it more or less by definition has to be channelled through the Exchequer system. Thereby it is under the control of the Accountant Generals Office and subject to audits by the National Audit Office. From the donor perspective, the budget and sector support modalities are based on a confidence that these government authorities have



sufficient capacity or that ongoing reforms soon will provide that capacity. This is why in particular the budget support and public finance management reforms are regarded as closely linked.

#### *Transaction costs and aid effectiveness*

Finally, a basic question is whether the new modalities increase the effectiveness of aid. By definition, reduced transaction costs increases the effectiveness (in this case a given quantity is produced to a lower cost). A more complex issue is that of efficiency (in this case if the quantity produced has a higher quality). If the group dynamic emerging from working jointly and use common instruments also is conducive to higher quality and increased sustainability of a given amount of resources, then even increased transaction costs may be defended also in the long run. In Tanzania we argue that a number of the PRBS working group meetings provided improved quality into the PRBS process. We would also argue that the same goes for the PEDP sector group.

### **3.6. Process overload**

One major concern related to the increasing share of programme modalities is that many new processes emerge out of the budget support and sector support, while very few, or none, are closed down. (In box 3.1. is listed most of the ongoing processes in Tanzania.) Another concern is that the SWAp processes are not fully aligned into the PER. This problem is actually wider, as harmonisation at the sector level is not always aligned to the budget process or the PRSP. Harmonisation between the SWAps, the Sector Working Groups and the PER sector related activities have the potential to reduce the transaction costs. Both Government and donor representatives emphasise this, while the actual harmonisation is slow.

#### *Box 3.1. Ongoing processes of relevance to the aid harmonisation*

An increasing number of multiple processes threaten to create a *process overload*. This is contrary to the aim of reducing transaction costs. The TAS Technical Secretariat has in a recent document listed the most important processes as follows:

- Budget cycle including Budget Guidelines and MTEF
- PRS and Progress Report
- Poverty Monitoring System and Working Groups
- PRGF monitoring (IMF)
- PRBS/PRSC
- PER Working Group, including annual consultative meeting.
- PER Macro Group
- Poverty Monitoring System, including
- Poverty and Human Development Report and Poverty Policy Week.
- Investor Round Table (private sector)
- Sector Co-ordination Meetings
- Sector Programme Reviews – including joint reviews
- Sector Monitoring Mechanisms
- Governance and Corruption discussions (annual Anti-Corruption Report)
- TAS Review and meetings
- Calendar of Parliamentary processes
- Consultative Group Meeting
- DAC meetings (including sub-groups)
- Donor Country Assistance Reviews
- Donor Project/Programme Reviews/Appraisals

Another effect is the increased workload on Ministry of Finance, with at least sometimes a corresponding reduction in the line ministries. However the transaction costs for the line ministries are enhanced when donors provide their resources both through a SWAp and as project activities.

Signs of “process overload” can be found in particular on the Tanzanian side. This is potentially serious as the construction of sustainable harmonisation still is fragile and the different processes depending on committed work by a limited number of key officials. To replace “project aid bombardment” with “programme aid process overload” is probably not a good solution. Still worse is if an emerging “process overload” takes place without the “project aid bombardment” being reduced.

### **3.7. Government's ownership to harmonisation and program aid modalities**

Through the Tanzania Assistance Strategy, TAS, the Government has set the agenda and is following up in TAS Action plan and monitoring of TAS. The DAC Group's broad acceptance and the joint DAC/TAS working group has put more pressure on TAS and strengthened Government ownership. Even though SWAp is in place in some ministries, the idea is not necessarily welcomed in all parts of the government.

To reduce transaction costs, Ministry of Finance has defined a period during the year, when the donors should avoid sending missions. This period covers the most intense budget preparation period and the budget session in the parliament. The Ministry is also pushing donors to align to government procedures. However, the Ministry is still reluctant to push if this could imply reduced donor support.

Who is pushing the harmonisation agenda? In general, a few donors, a few government representatives and some strong civil society organisations have great influence. Among the donors, UNDP, World Bank and DFID and some like-minded are the most active. Some factors that can threaten the government ownership is firstly less capacity in government than on donors' side, secondly that impatience from some donors to see progress can overload the government system, and thirdly that other Tanzanian stakeholders become frustrated because their influence on the process is too weak.

Donors often act as mode of communication between the different parts of the government and are often taking an active role in setting up baskets etc. This is a result of the imbalance in capacity and competence between donors and ministries. In the short-term this is working well, but it can in longer-term further increase the gap between donors and government.

An important aspect is how harmonisation as well as the PER and PRSP processes have influenced the ownership of other stakeholders than the central ones (Ministry of Finance, major donors and a few Civil Society Organisations). Of particular importance from a democratic point of view is that of the Parliament and local councils, which up till now have played a limited role. Private sector has in recent years become more effective in lobbying directly to the Government on economic policy issues. A discussion on “ownership by whom” is emerging in Tanzania, as well as internationally, mainly driven by civil society actors. It is focussed on the PRS process, but due to the strong links between that process, the new aid modalities and harmonisation issues, it is also relevant in the harmonisation context.

## 4. Harmonisation of budget support

### 4.1 Introduction

The use of budget support as a modality in development co-operation with Tanzania has increased in recent years. This is in full accordance with the explicit priorities of the Government. The introduction of the Poverty Reduction Budget Support (PRBS) facility to replace the Multilateral Development Fund in year 2000 has enhanced or created a number of harmonisation processes and models for labour sharing between donors. It has also changed the dimensions of the Government ownership, making it both stronger and more vulnerable to political opinions in donor countries or international organisations. The insight of the donors into central economic policy issues has also increased. Many of the harmonisation processes linked to the budget support have developed rapidly since year 2000 and have also uncovered new challenges to a continuation of the present trend towards increased budget support.

Some of the main experiences during recent years are:

- Budget support has been prioritised by the Government as aid modality, but there are also some interests both in line ministries and aid agencies that prefer other modalities.
- The Government emphasises strongly the need for predictability of budget support disbursements. Budget support is by many donors considered to be a more “political” aid modality and therefore risks volatility should events occur that are considered to be contradictory to the basis for the long-term co-operation, in particular if it becomes a domestic political liability in the donor country.
- Still, during recent years disbursement projections under budget support have been more reliable than those for project support.
- Delay of budget support has normally more serious budget liquidity effects than delays in projects.
- Efforts have been made to harmonise budget support with the Poverty Reduction Strategy process, but there is potential for more progress in this area.
- The issue of using both budget support and sector basket support to priority sectors has to be taken further. Experiences from the UK transfer of funds from the health basket into PRBS will be of importance in this context.
- Division of labour and lead donor roles can be useful instruments to reduce transaction costs on the donor side. It facilitates involvement with both government and the Bretton Woods Institutions and makes it possible also for smaller countries to be a more effective partner in those relations.
- Harmonising with the World Bank’s PRSC is possible, given mutual commitment and reasonably balanced capability. The harmonising of the PRBS and PRSC instruments is a good example.

### 4.2. General programme support is not a new modality

First it should be noted that general programme support under modalities such as import support or balance of payments support historically has channelled significant resources to Tanzania. The difference compared to recent years was that general programme aid at that time was bilateral and seldom generated donor harmonisation in the form of for instance joint missions, monitoring systems and reports. Neither was the support normally channelled through the budget system, but through instruments created as part of the modality. The Government system for allocation of import support was far from transparent, which both hampered implementation and building of trust between the partners.

### **4.3. From MDF to PRBS**

The Poverty Reduction Budget Support facility (PRBS) started in 2000/01, when 115 billion Tanzanian Shilling (TSH) was disbursed. In 2003/04 the combined PRBS/PRSC inflow to the budget is estimated to be 322 billion TSH, almost a trebling in three years.

The origin of the PRBS was the Multilateral Debt Relief Fund, MDF, which was introduced in 1998 as an instrument to channel bilateral donors' funding of debt relief from the IFIs during the period preceding the HIPC Decision Point in April 2000. All eight donors to the MDF<sup>3</sup> channelled their funds to one account, from which money was drawn to finance the debt relief in connection with the servicing of the debts to the IFIs.

In April 2000 a joint Government-donor team proposed that the MDF should be succeeded by a new facility called Poverty Reduction Budget Support, PRBS. The main arguments were that Tanzania had improved its macroeconomic stability and reached the HIPC decision point, and defined its medium term poverty reduction goals in the interim PRSP. No new funding commitments to the MDF scheme were needed at this stage. As in the case of MDF all funding to the PRBS should go to one account, from which Government could draw when necessary. The aim of the PRBS was to facilitate the implementation of the PRSP. Initially PRBS used the MDF monitoring instrument but subsequently it was agreed that the planning, implementation and monitoring of PRBS should be regulated in a joint Memorandum of Understanding, including a Performance Assessment Framework, PAF.

When the PRBS was created, the eight contributors to the MDF, together with the EU Commission, made contributions. Later Canada and Ireland joined. Japan participates fully in the PRBS, but the financial contribution so far has been restricted to undisbursed funds from the Japanese MDF contribution. Japan normally does not use the budget support modality and seems to use Tanzania as a pilot scheme in this field.

The monitoring of the PRBS has been carried out jointly by Government and the partners together on the basis of the Performance Assessment Framework. The PRBS monitoring system contains a budget execution meeting in September. The Annual Review is the basis for the PRBS countries' commitments for the following fiscal year, and normally conducted in November. The outcome of the Midyear review in March is the basis for the confirmation by the PRBS donors of their commitments for the fiscal year starting in July.

### **4.4. Merging PRBS and World Bank's PRSC**

The most interesting harmonisation process so far emerged when the World Bank was about to prepare its first Poverty Reduction Strategy Credit, PRSC, to replace the existing Programmatic Structural Adjustment Credit, PSAC, from fiscal year 2003/04. When informal discussions started in 2001, Ministry of Finance strongly argued for a merged budget support facility and the PRBS donors on their side were strongly committed to create joint or harmonised planning and monitoring instruments, and in particular to strive towards a joint PAF, agreed between all three partners. If the PRSC instruments and those of the already existing PRBS could be harmonised, it would be the first time in history. However, all partners had to accept that internal World Bank regulations would not permit the Bank just to channel its budget support through the PRBS.

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<sup>3</sup> Denmark, Finland, Ireland, Netherlands, Norway, Sweden, Switzerland and the UK.

One way to facilitate the harmonisation was to co-ordinate the various phases in the World Bank preparation cycle with the monitoring phases in the PRBS cycle. Therefore the World Bank pre-appraisal and the PRBS annual review were carried out during the same period in November-December 2002 and to a large extent jointly. One result was a draft PAF, partly consisting of the old PRBS PAF, to which a number of issues were added. Another result was that the previous Memorandum of Understanding was revised in the light of PRBS experience and World Bank suggestions. The revised document is called Partnership Framework Memorandum.

An interesting pattern emerged during the discussions on which actions/prior actions<sup>4</sup> should be included in the PAF. A number of World Bank officials coming from the headquarter in Washington had a different approach as they wanted to include actions/prior actions linked to sector level into PAF, and actions covering other sectors than those linked to the PRSP. They thus wanted to use the PRBS/PRSC as a lever to put pressure on the Government in other areas. Tanzanian authorities and the PRBS group members argued against this. The main arguments were the risk for cross conditionality, that too many actions would create an impossible situation for Government and that the various sector problems should be solved in a sector dialogue. A number of suggested actions by the World Bank were dropped from the PAF in this process. Still it can be argued that the list is too long and should be shortened, in order to reduce transaction costs for the Government.

The final discussions on the PAF took place in March 2003, when the PRBS half-year review and the PRSC appraisal were carried out. In the wrap up meeting, chaired by Ministry of Finance, the representatives from the various Government institutions, responsible for implementing the actions and prior actions in the PAF were urged by the chair to confirm that they were feasible within the time frame indicated. In a few cases the representatives were doubtful and as a result the action was postponed to the next year. This is a symptom of a significant Government ownership. It also symbolised the commitment to consensus that had been so evident during the whole process. This does not exclude that there were intense discussions on which actions should be included in the PAF.

#### **4.5. PRBS donors' division of labour**

PRBS has turned out to be a very useful instrument for improved harmonisation and continuous low-key policy dialogue with the Government. The PRBS donors have developed a close co-operation and division of labour with Terms of Reference for both lead donor and donors responsible for various areas of PAF.

During the reviews the lead responsibility for the various areas in the PAF have been made according to the above-mentioned division of labour. This saves a lot of work and also reduces the time and effort the Government has to put into the PRBS processes. The Government officials and other stakeholders have discussed with one or two representatives from the PRBS group, rather than the whole group or, still worse, eleven individuals putting more or less the same questions.

Strong commitment and significant capacity are required to move joint processes forward. It is almost inevitable that some of the members in a group are more active than others, both as an effect of more experience and due to higher competence (personally or institution wise).

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<sup>4</sup> Actions and prior actions are targets agreed with Government to be implemented within a set date. Both actions and prior actions are included in PAF and progress assessed during the reviews. However, implementation of prior actions is necessary condition to release PRSC support.

This has also to do with the personality of the different individuals. In the PRBS group, the DFID representative had the lead and was the most active member, for all these reasons. Due to the competence available through the DFID network and the strong commitment of the DFID locally, DFID facilitated for the PRBS group to emerge as an important player in the discussion with Government and the IFIs also on macro economic issues.

The question for other members of the group, such as Norway and Sweden, became how to meet this situation. The position taken was to contribute as much as possible, also if restrictions on time and institutional capacity often made it possible only to react on drafts and suggestions from DFID, rather than providing the drafts. Still, this created dynamics and improved the quality of the PRBS inputs in the ongoing discussions with the Government, the World Bank and the IMF.

One issue for Norway and Sweden in this context is whether the agencies should aim at strengthening their impact in this form of dialogue. This would imply improved and quicker access to specialist capacity within an established network. It is not necessary to keep this specialist capacity within Norway and Sweden, the main point is that it should be easily accessible when needed. Such a strengthening of capacity should preferably be handled within a Nordic context. Our experience is that close Nordic co-operation at the local level makes it possible to provide constructive inputs into the dynamics of the PRBS group. The quality of the inputs may also improve, if we strategically choose the issue areas in which we want to make our major contributions. With limited resources it is necessary to be selective.

#### **4.6. Government ownership**

The issues under this heading are similar to those discussed in the previous chapter on new aid modalities, and should not be repeated here. Just one example of the increased government ownership: During the PRBS/PRSC processes the Government and in particular the Ministry of Finance commitment to ownership was evident. The Ministry of Finance from the beginning strongly advocated a joint budget support facility, in order to reduce its own transaction costs. They also argued for a more limited PAF and were able to eliminate some of the original suggestions. The Ministry of Finance, with contribution from the donors, managed to include all relevant line ministries in the preparation of monitoring framework and thereby ensuring broad based government ownership. The budget support also increases the Ministry of Finance influence on the implementation of the PRSP.

In general, a shift towards budget support thus has many advantages for the government ownership. However, there are also weaknesses that should not be ignored, as they may erode the assumed increased ownership. One aspect is that budget support, compared to other aid modalities, is its higher sensitivity to political incidents.

#### **4.7. Trigger for disbursements – donors divided**

According to the PRBS/PRSC Partnership Framework Memorandum the parties will use the PAF and PRS Review process as a tool for dialogue on PRS implementation. This indicates that for the PRBS donors it is the overall implementation of PAF that will trigger their disbursements. It also provides scope for donors having different judgements. The Memorandum's intention of close co-operation makes it most probable that their assessments will be similar, as they have been so far.

The EU Commission in its new agreement with Government in 2003 included a partly performance-based two-tranche model for disbursements. 70 per cent of the annual

commitment will be disbursed as a first tranche against the same type of overall assessment as used by the other PRBS donors. 30 per cent will be disbursed as a second tranche. Which share of the 30 percent that actually will be disbursed depends on the development of a number of health and education sector performance indicators. While this is in line with the international discussion on more performance-based modalities, it also creates an extra uncertainty for the Government as the indicators also can be influenced by factors not included in the PAF. For the World Bank, the prior actions have to be implemented, while the PRBS assesses the overall progress.

The reason for the PRBS position was that overall assessment is important. Both the World Bank's prior actions and EU Commission models may divert incentives for Government, so that these specific issues will be given priority over the other PAF actions. Secondly, EU triggers introduce the risk for cross-conditionality with sector support disbursements. In addition, the EU indicators do not seem to be well enough checked towards the PRS monitoring system's indicators and those used in sector programs.

#### **4.8. Handling predictability**

One of several advantages with budget support from the point of view of Government is that the scope for predictability, is higher than for the projects since disbursements under project agreements are normally dependent on the physical implementation of investments, which in turn often are subject to delays.

To improve the predictability of the PRBS flows, in order to secure budget liquidity. Government has urged the donors to provide reliable disbursement projections and to implement them without delays. The Government also requested the donors that a substantial part of the total PRBS funds should be disbursed early in the fiscal year. The donors adjusted their disbursements to the requested timing and experience shows that budget support disbursement projections have been accurate in the sense that they normally have been paid out the same month as projected, or just slightly delayed.

However, recent experience has shown that disbursements are also vulnerable to events outside the PRBS framework. Without extraordinary events, budget support increases the Government ownership. However, should something happen, which influences the public opinion in one major or several donor countries or IFIs, there is a risk that the governments in those countries and/or boards in those institutions turn off the next disbursement. This has a more serious effect on the budget liquidity, than if a donor decides to stop disbursements to ongoing projects.

Government experienced this risk during the last months of fiscal year 2001/02 and first months of fiscal year 2002/03 when DFID first postponed and then froze the disbursement of the last tranche under their PRBS agreement, due to a dispute regarding Government procurement of radar equipment. The procurement was criticised by among others the World Bank and some bilateral donors, as well as the then UK Minister for Development Cooperation, for being too expensive, badly adjusted to its purpose and creating higher external debt, just in the wake of the commitments under the HIPC completion point to avoid new borrowing, except on highly concessional terms. This coincided with delays in disbursements from policy-related sector credits from World Bank and African Development Fund/Bank and postponement of disbursement by some other bilateral donors' support to PRBS. As a result of these coinciding factors, the Government experienced a period of low

budget liquidity in May-August, which had to be bridged by short term borrowing in Bank of Tanzania.

This incident led to a discussion among the development partners in Tanzania on how to reduce this type of risks. Among the issues discussed were the need to have a good monitoring mechanism that would catch issues before they develop into problems and to develop alternative instruments to the option of freezing committed budget support disbursement.



## 5. Public Expenditure Review (PER)

The objective of the Public Expenditure Review (PER) is to provide input to the preparation and assess the execution of the Tanzanian government budget. PER assesses overall fiscal discipline, analyses government resources and expenditures on the key priority areas, and is a check whether the government's strategic priorities, as outlined in the PRSP, are in line with the country's overall macroeconomic and fiscal situation.

New aid modalities like budget support and SWAPs have made it more important for donors to participate in PER since the process give insight in the budget process and PRSP implementation. Furthermore it gives substantial information on effectiveness of public funds in PRSP priority sectors.

This chapter looks at the PER process in Tanzania through aspects like government ownership and commitment, its role as dialogue forum for budget issues and PRSP implementation, donor involvement, influence on the budget and harmonisation between PER and other processes and programmes.

The experience in Tanzania, that might be relevant for other countries, can be summarised as follows:

- PER has increased Ministry of Finance's influence over the budget;
- PER has improved the domestic dialogue on budget issues and PRSP implementation;
- Several factors like difficulties in handling cross-cutting issues, weak data quality and imprecise definition of priority sectors reduces PER's influence on the budget formulation;
- There is a need to improve harmonisation of PER process to domestic budget process, overall programmes and sector support.
- PER has enhanced the insight of the aid agencies in the central budget process;
- Smaller agencies value added to PER increases by handling PER as a broad process involving both economist and sector specialists, and when internal field expertise, headquarters expertise and external expertise on macro and sector issues are pooled.

### 5.1 PER process in Tanzania

#### *Background and objective*

From its start in 1997, the PER process in Tanzania was originally a World Bank exercise to assess aspects of budget execution in Tanzania. Since 1998, the Government has gradually taken a stronger leadership in the process.

The PER objective is to provide input to the preparation of the Government's budget and assess the execution. PER looks at the overall fiscal discipline, analyses government resources and expenditures on the key priority areas, and is a check to whether the Government's strategic priorities, as outlined in the PRSP, are in line with the country's overall macroeconomic and fiscal situation. Furthermore, PER aims at improving overall budget formulation, assess sector performance and estimate PRSP full costing.

#### *PER cycle and structure*

The PER process starts in the beginning of a budget year (September) and is finalised in May the following year. It gives input (October-November) to the Government's Budget Guidelines and commissions sector PER studies (November – January). A World Bank led external evaluation with participation from bilateral donors takes place in December every year. Table 5.1, gives an overview of activities and timetable.

The PER process is organised by a Working Group headed by Permanent Secretary in the Ministry of Finance with participation from PRSP priority line ministries (education, health, water, roads, judiciary, agriculture, local government), Government bodies representing crosscutting issues (HIV/Aids), civil society organisations and development partners. Sector Working Groups were established in 2002 to strengthen the sector ministries' participation. They have representatives from the relevant ministry, selected donors and civil society.

The PER Macro Group is chaired by Ministry of Finance and discusses fiscal issues like overall budget frame, budget deficit, domestic and foreign debt and government revenue. It has representatives from relevant Ministries, Bank of Tanzania, bilateral donors, World Bank and IMF.

The annual PER annual cycle ends with the Consultative Meeting in May, which is chaired by the Ministry of Finance. Participants come from ministries, Parliament, private sector and civil society, as well as donors. The discussion focuses on the PER external evaluation report and the PER sector studies.

## **5.2 Government's ownership and commitment**

Ministry of Finance has gradually taken a stronger lead in the PER process. This can be explained by improved technical capacity in the Ministry and establishment of an external aid database, which has increased the Ministry's influence towards line ministries. The donors have encouraged the stronger leadership of Ministry of Finance and World Bank has played an important role by providing staff to the PER Secretariat.

As flexible programme aid, like budget support has increased during the last few years, Ministry of Finance has got more free funds to allocate. This move has contributed to a stronger ownership by the Ministry of Finance in PER.

In 2002 Denmark, Sweden and Norway suggested that their resources should be channelled to a PER basket. The fund has strengthened the Ministries' ownership of PER studies and has led to a shift from PER sector reviews done by external consultants contracted and paid by donors, to more in-house reviews with assistance from consultants commissioned by Ministry of Finance.

All priority sector ministries are members of PER Working Group. However, the ministries participation differ and their input can be given late. This might happen because of lack of capacity, but also because some sector ministries look upon the PER work as just an extra burden, without seeing the advantages.

As expressed in a PER report<sup>5</sup>, line ministries have suggested that there is some disquiet on the Tanzanian side about asymmetry in the PER process. There is a perception that donors have much greater access to technical expertise. Given the number of development partners, their collective staff resources and their co-ordinated efforts, there is some feeling that the Tanzanian side operates at a considerable disadvantage in the process.

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<sup>5</sup> ESRF: Public Expenditure Review 2003. The Development budget. (28 May, 2003)

### **5.3 Improved domestic dialogue on budget issues and PRSP implementation**

Public awareness on budget issues and government priorities has been increased by including representatives from civil society in PER Working Group and holding an annual PER Consultative Meeting with wide local participation.

Over the years, the PER Consultative Meeting has evolved from a donor driven forum to a more domestic influenced debate led by a few strong civil society organisations and stronger involvement from regional and local Government level. However, engagement by members of Parliament is still limited and private sector seems to be less active than civil society. The focus and quality of the discussion has improved over the years, but there still tends to be a bias towards presentation of statements rather than active debate between the Government and the local participants.

Even though donors play a more passive role leaving the floor to local participants, the forum is considered an important arena to discuss budget issues, budget allocations, PER study recommendations as well as other sector and budget issues. For instance, in 2001 Norway used the forum to flag its support to the government's request to send project funds through government own financial system. Sweden has in this forum argued for improved information flows between line ministries and the Ministry of Finance on aid funded activities and expressed concern over the continuing gap between budgeted and registered actual development budget expenditure.

One concern is whether the PER process weakens the role and influence of Parliament by opening up a discussion on budget issues with donors and local stakeholders. As mentioned, some MPs take part in PER Consultative Meeting, but they often have less knowledge compared to donors and civil society organisations that take part in the PER process. To meet this concern, donors have suggested that an expenditure framework document approved by Cabinet which reviews the previous year's performance, summarises the three year spending framework and presents a comprehensive analysis of possible donor support should be presented to the Parliament in addition to the annual budget.

### **5.4 Factors that weakens PER influence on the budget**

A number of factors tend to weaken the influence of the PER on the budget.

#### *Difficulties in handling cross-cutting issues*

In addition to sector issues, PER also includes crosscutting issues like HIV/Aids and gender. The experience has however shown that it is difficult to budget for crosscutting issues. For example, HIV/Aids has not been sufficiently incorporated in the line ministries' budget proposal, with the exemption of Ministry of Health. This results in low total amount allocated to HIV/Aids which is used by some as an argument for setting up donor funded externally driven parallel funding mechanism not sufficiently co-ordinated with government's systems, e.g. the Global Fund.

#### *Weak data quality and differences in definition of priority sectors*

Despite substantive improvements in the Ministry of Finance to estimate the total budget frame, there are still weaknesses in estimating revenue and external foreign aid.

Another aspect is that definition of priority sectors in the Government's budget guidelines has been slightly broader than those listed in the PRS document. For example has the budget guidelines listed energy as an important sector and to the spending priorities included anti-

corruption as a priority sector. The imprecise definitions of priority sectors reported in the PRSP and the following PRS progress reports have also made it difficult to compare spending over time and with PER projected allocations.

#### *Limited implementation of PER study recommendations*

There has been a tendency to carry out PER sector reviews annually without sufficient attention to whether recommendations in previous reports have been implemented. The focus is now shifting towards following up implementation.

### **5.5 Harmonisation of overall and sector level**

Table 5.1 illustrates the overlap between PER and other processes as well as how PER process delays reduce the impact on the budget process.

*Table 5.1. PER activities, planned and actual timetable and overlapping processes and alignment to the internal budget process*

PER activities	Planned timetable	Actual timetable	Lack of harmonisation of PER and:		
			Tanzanian budget process	Sector program activity	PRBS/PRSC and PRGF activity
Process start	August - September	October			
Sector working groups to assist ministries with inputs to Budget Guidelines	October	November	Links between PER, sector working groups and ministries need to be strengthened		
PER sector studies start	October	November - January			
PER External evaluation	December	December			1)Partly overlapping objective with PRGF mission 2)Partly overlapping with PRBS/PRSC reviews
Draft PER studies ready	January	February - March		Partly overlapping with SWAp reviews	
Final PER study	February	April - May	Delays sometimes reduce the impact on budget preparation		
PER Consultative Meeting	May	May			

#### *Harmonisation of PER to the national budget cycle*

The intention is that PER sector studies or thematic studies shall be finalised in time to be used as input to the budget formulation. However, as shown in table 5.1 studies are often

finished in April – May, which is too late for the budget preparation or as input to formulate medium term budgets.

*Harmonisation between PER process and programmes on overall and sector level*

As shown in table 5.1, the external PER review is conducted in December. However, IMF through its PRGF has an overlapping mission shortly after that. Furthermore, as part of the budget support facility (PRBS/PRSC), both the March Mid-year review and the September meeting assessing budget issues covered both by the PER External review as well as PRGF mission. There is however, ongoing effort to co-ordinate the PER external review and PRBS/PRSC reviews as well as attempt to co-ordinate these with IMF missions.

The PER sector studies is partly overlapping with SWAp reviews both in content and time. This results in duplication of studies where sector ministries focus on the SWAp/program reviews, as these trigger donors' disbursements and due to capacity constraints put less emphasis on the PER review. There has been efforts to co-ordinate the PER and SWAps reviews as this will both reduce transaction cost as well as strengthen the budget process and PRSP implementation, but this have so far not been achieved.

### **5.6 Donor views and involvement in PER**

As mentioned, there is a broad participation in PER by development partners, including UN-agencies, WB, EU Commission and bilateral donors. All PRBS donors take part in PER as the agencies see PER as important forum for getting information on the PRSP implementation.

The most active donor is DFID, which is represented by both the economist and also sector specialists. DFID's broad field office participation and its external resource base (consultants, research institutions) enable the agency to give more valuable input to the process compared to smaller like-minded donors. DFID is also the agency that is most forward-looking and innovative in its thinking and is thus contributing to moving the process forward. Other agencies have tried to copy the DFID's "holistic" involvement, but have not fully succeeded. There are several factors explaining this, among others less capacity, more fragmented portfolio, to some extent less involved management, and lack of external expertise that can contribute to the internal discussions.

## 6. Check against the Rome Declaration on harmonisation

It may be of interest to compare the recent development in Tanzania with the commitments made in the Rome Declaration on Harmonisation in February 2003. In the declaration they are summarised under nine points, and we briefly comment the development in Tanzania under each of them, in some cases only referring to the experiences of the Norwegian and Swedish Embassy. (We have shortened the original wording, hopefully without changing the content).

- *Ensuring that development assistance is delivered in accordance with partner country priorities, including poverty reduction strategies and similar approaches, and that harmonisation efforts are adapted to the country context.*

PRSP priorities strongly influence most aid agencies. Most of them are also actively involved in the local harmonisation process guided by the Government's Tanzania Assistance Strategy process. The Government's effort to register all development resources in the budget has made progress and a larger share of the total aid is channelled through the Government financial system. An increased share of budget support and programme aid is the main factor behind this development. Basket funding arrangements, where procedures are closely aligned to the Government's system, are used both in SWAs and other co-financing programmes.

- *Reviewing and identifying ways to amend, as appropriate, our individual institutions' and countries' policies, procedures, and practises to facilitate harmonisation. In addition, we will work to reduce donor missions, reviews and reporting, streamline conditionalities, and simplify and harmonise documentation.*

Harmonising aid agencies procedures and practises is ongoing as part of TAS implementation. A number of aid agencies have abolished the bilateral annual reviews and the policy dialogue has to a large extent been moved to a low key, local level as part of other processes, such as the PER, the PRBS and the PRS-related activities. The local DAC Group in Tanzania has established a calendar of major events, including missions, aimed at reducing and harmonising donor related events, and improving the alignment with Government processes. There is also agreement between Government and the DAC Group to keep a certain period free from missions (silent period), in particular to reduce the pressure during the most intense budget preparation period and the budget session in the Parliament. Both these instruments are steps forward, but it is still unclear which impact they will have.

The number of bilateral missions have been reduced in those sectors where SWAs are established but also in sector or issue areas in which formal or informal working groups are established and well-functioning. Co-financing mechanisms have also reduced the number of reports required by the agencies. This tendency is enhanced when SWAp donors and budget support providers accept joint reports. The reduction of the number of reports also depends on to what extent Government manages to deliver them on time.

- *Implement progressively – building on experience so far and the messages from the regional workshops - the good practise standards or principles in development assistance delivery and management, taking into account specific country circumstances. We will disseminate the good practices to our managers and staff at headquarters and in country offices and to other in-country development partners.*

In the case of both Sida and NORAD reporting of best practises from experience in other countries has been disseminated between the headquarters and the field. It would have

benefited work in the field office if headquarters had taken an even stronger role in collecting and disseminating of experience from other countries and other agencies.

- *Intensifying donor efforts to work through delegated cooperation at the country level and increasing the flexibility of country-based staff to manage country programme and projects more effectively and efficiently.*

Both the Swedish and the Norwegian embassy in Tanzania belonged to the first pilot ones that were given decision-making power over the aid allocation. Both embassies have been able to work quite flexible in its harmonisation efforts both towards the Government and towards other aid agencies in the country.

- *Developing, at all levels within our organisations, incentives that foster management and staff recognition of the benefits of harmonisation in the interest of increased aid effectiveness.*

The embassies' management as well as the staff in general has recognised and worked for increased harmonisation.

- *Providing support for country analytic work in ways that will strengthen governments' ability to assume a leadership role and take ownership of development results.*

One example is the Swedish support to the diagnostic macro economic and fiscal work for Zanzibar during 2002 and 2003. Also, the two embassies have participated together with other agencies in an informal preparatory discussion on a possible joint Country Analytical Framework for Tanzania. (?)

- *Expand or mainstream country-led efforts to streamline donor procedures and practices, including enhancing demand-driven technical co-operation.*

Norway and Sweden have been very active in supporting the Tanzania Assistance Strategy process. Norway and Sweden are also among those countries that take the issue of providing all necessary information on projected and disbursed development aid to the Ministry of Finance and to see to that it is reflected in the budget.

- *Provide budget, sector or balance of payments support where it is consistent with the mandate of the donor, and when appropriate policy and fiduciary arrangements are in place.*

For both countries the share of total resources channelled through PRBS and sector baskets has increased. In the case of Sweden, the special Swedish procedure outside the country allocation puts restrictions on the amount available for budget support to Tanzania, as this also depends on the situation in all other countries for which budget support or debt relief are considered.

- *Promote harmonised approaches in global and regional programmes.*

Efforts have been made to coordinate individual donors' support to regional organisations, like for instance East African Community (EAC).

## 7. The challenge for Norway and Sweden – suggested responses

In this last chapter we suggest a number of responses which could be considered by Norway and Sweden to the challenges emerging from the experiences we have identified in the previous chapters. Many of them are already familiar issues in the international discussion on harmonisation, but we hope that the linking of aid modalities and harmonisation also can open up new perspectives.

### On government – donor relationship

- *Inclusiveness and transparency* are important, also between donors. To further improve the co-operation climate, the discussions should be brought to a wider group than those directly involved as soon as possible. Furthermore, non-basket donors should not be excluded, as the aim should be as much co-ordination and harmonisation as possible, between all donors.
- New aid modalities strengthen the government ownership and changes its quality. At the same time the main donors get better insight in central government processes. It is important that donors see *budget support and SWAps as long-term commitments* and develop instruments to *avoid stop-go situations*.
- *Independent monitoring mechanism* is a very useful catalyst to drive the process forward.
- To be able to contribute constructively and have an impact on the processes of harmonisation, alignment and new aid modalities, *smaller donors need sufficient capacity at the local level* and good access to capacity at headquarters. Close co-operation between the Nordic countries may further improve the capacity.

### On new modalities and transaction costs

- The ongoing move towards *programme modalities should coincide with a corresponding reduction of the project aid*. Support from the same aid agency to a sector through both sector basket support and projects also erodes the potential transaction cost reduction.
- *Look out for the risk of process overload*. Out of the programme modalities emerge new processes. They have to be merged and harmonised to the greatest possible extent.
- *Don't push too hard if Government is not committed*. Postpone the process if the Government authorities involved are perceived as not being committed. If the Government authorities involved are not committed and convinced of the advantages of a change, the risk for delays and lack of sustainability is high.
- *Assess the value added of parallel sector support and budget support to the same sector*. The issue of parallel support to a sector through budget support and sector basket support should to be further discussed.
- *Donors should improve learning from previous experience when establishing basket and pooling arrangements and assist government in the learning process in order to reduce transaction costs for all partners*.
- *Baskets cannot and should not be micro-managed* by the donors. Leave the project mind set when working with baskets.
- *Elaborate division of labour further within budget support and sector baskets*. Norway and Sweden should also consider the possibility of sharing baskets, in the sense that Norway contributes with a larger amount to one while Sweden contributes with a larger amount to another, instead of both countries providing resources to both baskets. This type of selectivity would reduce the transaction costs for both countries, but may be difficult for visibility reasons.
- *Continue to develop the lead donor concept*. Guidelines that can further improve the potential of the lead donor model in sector baskets and budget support. This also requires



better back-up from headquarters and better networking within and between the aid agencies.

- Smaller and medium sized agencies should pool their resources to strengthen influence and impact on strong aid agencies, notably the World Bank. Working together with stronger bilateral agencies will also facilitate this.

### **Harmonisation of budget support**

- *Budget support is one aid modality among others.* Budget support is easier to turn off than project support. It is also considered by many as more “political”. Norway and Sweden should initiate a discussion on what instruments should be used in case violations of human rights or other major events that for Foreign Policy reasons should affect the development co-operation.
- *Ensure better harmonisation of budget support and PRS* in order to reduce transaction costs and avoid overlapping.
- *Improve the quality of disbursement projections.* Predictability of budget support disbursements is important and affects budget liquidity. The capacity to provide good projections should be further strengthened, and projections should be followed.
- *Harmonising with the World Bank’s PRSC is possible.* Given mutual commitment and balanced capability it is possible for bilateral donors and partner country governments to harmonise processes with the World Bank on a more or less equal footing.

### **Public Expenditure Review**

- When providing budget support, Sida and NORAD should *be actively involved in PER processes and encourage strong government ownership* both from MoF and sector ministries.
- *Harmonise PER to domestic budget process and to budget and sector support.*
- *Ensure that NORAD and Sida give value-added input* to the process by pooling internal field and HQ expertise as well as external expertise on macro and sector issues. Field office management should consider PER as broad process involving both economist and sector specialists.

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