

Changing aid modalities in Tanzania

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The year 2005 will not only enter the history books as the year in which the donor community again committed itself to increasing the volume of development aid, but also as the year in which donors pledged to transform the ways in which aid is planned, delivered and evaluated. One of the documents in which donors have joined with partner countries in committing themselves to this transformation is the 2005 Paris Declaration.

This Brief takes a look at the way in which these changes are currently being made in Tanzania. Tanzania is one of the largest of the 77 ACP countries and its relations with donors have undergone a number of important changes since the 1960s - changes which have at times influenced many other developing countries. Besides describing the process of changing aid modalities, this Brief also comments on the large amounts of time, resources and (political) commitment that both donors and the government will need to invest in the new framework, in cooperation with key stakeholders from Tanzanian society. It is my view that - despite being more 'risky' and dependent on local conditions - these changes are absolutely vital if the development cooperation relationship is to be sustainable, and partner countries are to be less dependent on aid in the long run.



and 1970s for pursuing highly independent policies and actively pushing for ownership of its development efforts. Self-reliance was a driving force in the policies adopted by Julius Nyerere and one of the main themes in the 1967 Arusha Declaration of Socialism and Self-Reliance. The first efforts to take control of incoming foreign resources were made in the early 1970s. During this period, an external finance unit was created at the Ministry for Finance, and an External Finance Manual published in 1973. The many subsequent years of economic crisis alternating with crisis resolution with the aid of structural adjustment programmes and policy-related aid conditionality, weakened the spirit of self-reliance. The result was more donorship and less ownership.

Introduction

Tanzania is one of the most aid-dependent countries in Africa, and has been receiving aid since the early 1960s. Tanzania had a reputation in the 1960

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When the economy began to pick up again in the mid-1990s, the government revived its interest in assuming control of external resources. This trend coincided partly with the adoption of the Paris Declaration in March 2005.² As a result, Tanzania is now pursuing a new recipient-led assistance strategy that is piloting a new type of development cooperation partnership for all of Africa. Within a relatively brief period, a large number of Tanzania's many donors have agreed to put Tanzania in the driver's seat, to follow Tanzania's poverty reduction strategy and to use budget support as the preferred aid modality. The new modality has even brought in donors who have never delivered aid in this form. So how did this happen and how sustainable is this development?

The Tanzania Assistance Strategy (TAS): a new recipient-led assistance strategy

Tanzania adopted a Structural Adjustment Programme in 1986, in the wake of the economic crisis in the late 1970s and early 1980s. After the first Economic Recovery Programme, which was based on the principle of 'getting prices right', the reforms revolved around social adjustment in 1989-92 and on institutional reform in the early 1990s. These later stages required more political commitment than the earlier stages. However, the requisite political commitment was not entirely forthcoming and donors began to express concern in the early 1990s. They felt that Tanzania was failing to implement the reform programme with commitment and had not mobilised sufficient domestic resources. The Tanzanian government, on the other hand, claimed that donors were interfering too much and were undermining national ownership of the development agenda (Wangwe, forthcoming). This stand-off led to a deterioration in the aid relationship between the Tanzanian government and foreign donors. The situation was a cause of concern to many actors in Tanzania and to Nordic donors in particular.

◆ Improvement process launched in 1990s

In 1994, the Nordic countries, with Denmark as their driving force, decided to take action to improve the relationship. They launched a process that led to the appointment of a group of

independent advisers under the leadership of Professor Gerry Helleiner of the University of Toronto. The independent advisers undertook a study, which was published in 1995. Subsequent discussions between the government and donors were based on their report. Opening up a dialogue between the government and donors became a new policy priority. The first major dialogue took place in September 1996, and involved the Tanzanian government and representatives of the four Nordic countries, i.e. Denmark, Finland, Norway and Sweden. This was followed by a workshop held in January 1997 and attended by government and donor representatives, at which it was agreed to set up a joint programme for redefining the terms of development cooperation. The result was the compilation of a set of 'agreed notes' (in the form of 18 points) stating, among other things, that there was a need to improve government leadership of development programming, and to secure greater transparency, accountability and efficiency in aid delivery (Wangwe, forthcoming).

Reports assessing the progress made by both parties were presented to Consultative Group meetings (formalised meetings between a partner country and the donor community) held in December 1997, March 1999 and May 2000. The latter meeting agreed that, whilst monitoring was a worthwhile activity, it needed to be institutionalised. As a result, the government and donors jointly appointed an Independent Monitoring Group (IMG) in February 2002. Several donors agreed to finance the IMG's work in 2002. The results were presented to the Consultative Group meeting in Dar es Salaam in December 2002. The IMG report recognised that aid relations had improved significantly in recent years, and made 35 recommendations. These were designed to achieve further harmonisation and alignment, and listed a number of activities that both the government and the donors needed to perform. Thanks to the impartiality of its authors, the report was able to raise a number of sensitive issues for discussion by donors and between the donors and the government (Odén and Tinnes, 2003; ODI, 2006).

² More information on the Paris Declaration on Aid Effectiveness is given on page 4 of this Policy Management Brief.

For those not familiar with the Tanzanian scene, various key terms and abbreviations are briefly explained below:

- The **DPG** is the local Development Partner Group, which is the name under which the donor community operates in Tanzania. The DPG has played a key role in harmonising donor activities.
- The **Exchequer system** is the government's budgeting and accounting system.
- **JAST** is the Joint Assistance Strategy for Tanzania. It represents a refinement of the TAS (see below) and was published as a document wholly owned by the Tanzanian government.
- **MKUKUTA** is the second-generation poverty reduction strategy and entails a high degree of ownership, growth and governance.
- **MTEF**: stands for Medium-Term Economic Framework. It costs and coordinates programmes and projects described in the PRSP (see below). The MTEF is an important planning tool for domestic and external resource allocation.
- **PER**: the Public Expenditure Review is the process by which the government, various donors and a number of civil-society organisations together prepare the national budget and monitor its implementation.
- **PRBS** is the poverty reduction budget support scheme through which 14 aid agencies are currently channelling their budget support.
- **PRS** is the poverty reduction strategy adopted by the Tanzanian government. It forms the basis for much of the country's poverty reduction policy.
- **PRSP** is the Poverty Reduction Strategy Paper. This is the document required for debt relief under the Highly Indebted Poor Country (HIPC) scheme, and sets targets for resource allocation and outputs.
- **SWAP** stands for 'sector-wide approach'. This is the technique used by some aid agencies for channelling their contributions to a specific sector.
- **TAS** is the Tanzania Assistance Strategy. This charts a framework for development cooperation, describing procedures and responsibilities and suggesting ways of reducing the transaction costs of development cooperation.

◆ *2002: Publication of TAS*

The process of producing a framework for cooperation culminated in the preparation of the Tanzania Assistance Strategy (TAS) in 1998-99. This was finally published in 2002, after many rounds of dialogue and refinement. The delay was due partly to the fact that donors gave priority to the PRS process around the year 2000. The TAS was intended to be a framework for partnership that would also define the role of external resources for development in Tanzania. The TAS seeks to

strengthen donor coordination, harmonisation, partnership and national ownership in the development process. It contains a three-year national strategy covering various aspects of the national development agenda set out in the PRS, a policy framework, best practices in development cooperation, and a framework for monitoring its implementation, and priority areas and interventions. A TAS Action Plan was formulated as part of the Strategy with a view to plotting a practical course of action that the government and donors could take in implementing TAS.

The Paris Declaration on Aid Effectiveness: an overview

The second High-Level Forum on Aid Effectiveness, held in Paris on 2 March 2005, brought together development officials and ministers from 91 countries, 26 multilateral organisations, as well as representatives of civil-society organisations and the private sector. The participants took stock of overall progress and identified further work they felt was needed in three separate but connected areas that would, in theory, help make aid more effective:

1. systematic support for nationally formulated, country-owned development plans;
2. more widespread use of national administration systems for distributing the growing amounts of aid;
3. more coordinated and predictable activities by the growing number of donors (Rogerson 2005).

The main outcome of the High-Level Forum in Paris was the Paris Declaration on Aid Effectiveness. This was signed by all participants, who in doing so committed themselves to taking concrete action in the above areas. The declaration was the culmination of various events, including:

- **Monterrey (2002):**
the Monterrey Consensus called upon developed countries to provide more and better aid, and developing countries to strengthen their commitment to policies and institutions that contribute to growth and poverty reduction.
- **The first High-Level Forum in Rome (2003):**
the international donor community pledged to align development aid with their partners' strategies, to harmonise donor policies and procedures, and to apply principles of good practice.

- **The Marrakech Round Table on Managing for Results (2004):**
emphasising the donor community's commitment to aligning activities with the desired developmental results, the Round Table defined how support should contribute to country outcomes. Delegates agreed on the need for relying on and strengthening countries' monitoring and evaluation systems (Paris High Level Forum 2005).

The Paris Declaration has five key features:

- **Ownership:**
this reflects the efforts made by partner countries to exercise effective leadership over their development policies and strategies, and to coordinate development activities. The Declaration commits partner countries to develop and implement their strategies through broad consultative processes, to operationalise these strategies and to take the lead in coordinating development aid in a dialogue with donors, while at the same time encouraging the participation of non-state actors. The Declaration calls upon donors to respect this leadership and strengthen the partner countries' capacity to exercise it.
- **Harmonisation:**
efforts by donors which aim at bringing the policies and procedures that govern their support as much into accord as possible, so to avoid imposing varying and conflicting requirements on partner countries which reduce the effectiveness of the development cooperation efforts. The Declaration emphasises on the need for harmonising, increasing transparency and improving collective effectiveness (through division of labour) of the donors' actions.

- **Alignment:**

Donors seek to 'align' their support with priorities and strategies set by partner countries, rather than imposing their own priorities. This also means building up and relying on the partner countries' own mechanisms for implementing projects, rather than putting parallel systems in place. For their own part, partner countries undertake to make a greater effort to adopt sound strategies and set sensible priorities, and to strengthen and improve their institutions.

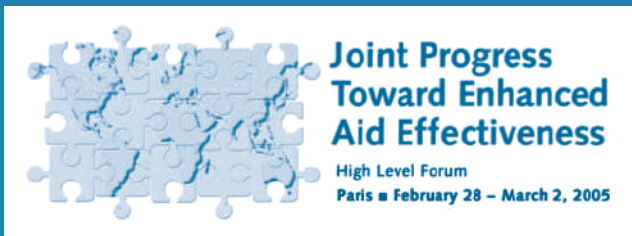
- **Managing for results:**

donors and partner countries jointly undertake to try and manage and implement aid in a way that focuses on the desired results, and to improve evidence-based decision-making. Both parties undertake to work together on a participatory basis to strengthen the capacity of developing countries and to sharpen the focus on result-based management.

- **Mutual accountability:**

finally, both donors and partner countries agree to prioritise mutual accountability and transparency in the use of development resources. The Declaration states that this will (...) also help to strengthen public support for national policies and development assistance.' Mutual progress towards meeting the commitments on aid effectiveness made in the Declaration will be jointly assessed with the aid of country-level mechanisms.

(Paris High Level Forum, 2005)



The Paris Declaration consists of three main components:

I A Statement of Resolve: reaffirms the commitments made during the High-Level Forum in selected areas, introduces the commitments of the Paris Declaration and explains how they will be monitored and evaluated.

II Partnership Commitments: the commitments are to be met in a '(...) spirit of mutual accountability' and are '(...) based on the lessons of experience'. They are divided into five groups: ownership, alignment, harmonisation, managing for results, and mutual accountability.

III Indicators of progress: '(...) to be measured nationally and monitored internationally'. The 12 indicators feed into key targets set for 2010, including the following: 75% of developing countries should have effective home-grown poverty reduction strategies; at least 40% of donor country missions to poor countries should be organised jointly so as to cut costs.

In parallel with the commitments expressed in the Paris Declaration, the member states of the European Union and the European Commission also pledged to raise the effectiveness of their own development cooperation, by adopting the '3C' principles set out in Article 130U-Y of the Treaty on the European Union. This treaty, which was signed in Maastricht in 1992, introduced the principles of coordination, complementarity and coherence, which have had a profound impact on the new 'aid architecture'. The 3Cs also feature in the Cotonou Partnership Agreement (Article 12 in particular), as well as in the European Consensus on Development signed in December 2005.³

³ For more information on the European Consensus on Development, visit: http://europa.eu.int/comm/development/body/development_policy_statement/index_en.htm. More information on the 3Cs can be found at <http://www.three-cs.net>

◆ *Evaluation and review*

The government and the donors agreed to set up monitoring and evaluation mechanisms that would review the progress made in improving the aid relationship and discuss reports submitted to the Tanzanian government and donors so that agreement could be reached on the next steps. Professor Helleiner undertook these reviews in December 1997, March 1999 and May 2000. The monitoring function subsequently split into two strands: joint evaluation and an independent review mechanism.

The job of undertaking independent reviews was entrusted to the Independent Monitoring Group (IMG) appointed jointly by the government and donors. The IMG's first report was presented to the Consultative Group meeting held in December 2002. The second report was presented in April 2005; it reviewed the status of the government-donor relationship in Tanzania and assessed the progress that had been made since December 2002 towards the principles and objectives set out in the TAS. The conclusion drawn was that the TAS had indeed strengthened government ownership of the development process. This is consistent with the policies developed by the OECD's Development Assistance Committee in the run-up to the Rome Declaration in 2003 and the Paris Declaration in 2005.

The current state of the Tanzanian development assistance partnership

◆ *The MKUKUTA strategy*

The development of a policy of local ownership from 1995, combined with the active participation and commitment of the Tanzanian leadership, including President Mkapa, in the discussions and negotiations leading up to the Paris Agenda, had the effect of placing the issue of the development assistance partnership high on the Tanzanian policy agenda. The government's desire to take control of development assistance became a high priority and the best people were appointed to represent Tanzania in negotiations with the donor community. These efforts were based on the Tanzanian-owned poverty reduction strategy of 2001, which was refined to form the second-generation PRS known as

Indicators used for monitoring the effectiveness of the Tanzania Assistance Strategy

- The degree of government leadership in setting policy priorities and developing strategic frameworks, including institutionalised cooperation mechanisms in various fields and sectors.
- The degree to which civil society and the private sector are involved in developing national policies, strategies and priorities.
- The degree to which the government is prioritising and rationalising development spending in line with stated priorities and resource availability.
- amount of resources committed to the strategic expenditure framework.
- The degree of alignment, as measured by assessing whether donors' requirements for reporting and accounting are being integrated in the partner systems.
- Adequacy of resource disbursements relative to prior commitments.
- The degree to which resource disbursements are timed to respond to exogenous shocks affecting the Tanzanian economy.
- The degree to which donor policies complement domestic capacity-building efforts.
- The degree to which firm aid commitments have been made for the long term.
- Improved government management of public finances.
- The degree to which the government has created an appropriate national system for reporting on 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 at both national and sectoral levels.

(Odén and Tinnes 2003)

MKUKUTA in 2005. The first poverty reduction strategy had been based on a relatively low level of non-state participation, and had also been put together in some haste in order to meet the HIPC debt relief requirements (see box below). Moreover, donors had exerted much more influence than

domestic constituencies. The MKUKUTA strategy was clearer, more consultative and more participatory, with greater government leadership than had been the case in the past. The MKUKUTA strategy was much more home-grown than the first PRS, with donor input being restricted to comments on the draft version. These comments were also better coordinated than before. Donors gave strong backing to the result-driven nature of the MKUKUTA strategy, as it included both plans as well as measures on how the fulfilment of these plans would be assessed. The challenge now is to show that the strategy is moving away from input-based towards output-based results, by focusing on the real outputs of development efforts (Wangwe, forthcoming).

Poverty Reduction Strategy Paper (PRSP)

- This is a medium-term strategic document prepared in accordance with the terms of the enhanced Heavily Indebted Poor Countries (HIPC) Initiative (2000-2003).
- It analyses the country's poverty status (the term currently used for defining a country's level of poverty) and sets targets both for the economy as a whole and for individual sectors.
- It defines a number of priority sectors: primary education, primary healthcare, rural roads, agriculture, water, HIV/AIDS and the judiciary.
- Funding of the PRS is aligned with the MTEF and PER. This means in practice all different activities should be seen together and coordinated when it comes to funding.
- The MTEF is the main planning tool for allocating resources to coherently planned programmes and projects outlined in the PRSP.
- Monitoring and evaluation mechanisms are linked to the major development cooperation processes: the PER, PRS and PRBS.

National Strategy for Growth and Reduction of Poverty (MKUKUTA)

- MKUKUTAs is a second-generation poverty reduction strategy.
- It is a five-year strategy for the period from 2005 to 2010 that was developed along participatory lines.
- It is an outcome-oriented plan focusing on four key elements:
 - speeding up growth;
 - reducing poverty;
 - improving the quality of life and social well-being, and
 - enhancing governance and accountability.

◆ *New aid modalities: from project aid to Swaps and budget support*

There has been a shift from project aid to various forms of programme support, and this process has accelerated during the period since 1999. Following the agreement reached between the World Bank and the Tanzanian government in 2003 on a new budget support facility, more than 35 per cent of total aid is now delivered in the form of budget support. Sector funding has been adopted in health and education, among other sectors. Other forms of sector funding are currently under preparation. Basket funding (a type of funding whereby donors join together to fund one specific project, or a group of projects) is used to support the Local Government Reform Programme and various parts of the Public-Sector Reform Programme, and is under preparation for the Legal Sector Reform Programme. In other sectors, there is a high degree of donor coordination and a forum has been established for government-donor dialogue (Odén and Tinnes, 2003).

The move towards budget and sector programme support has led to a reduction in the amount of tied aid and a shift towards the non-earmarking of funds and a pooling of technical assistance. This, in turn, has resulted in government institutions gaining greater ownership of programme implementation.

The new aid modalities have also been an important factor in the creation of more and better fora at both national and sector level. The new aid modalities have intensified the involvement of donor headquarters, and have led to a greater variety of topics being discussed and meetings being held more frequently. The national fora include the Consultative Group meeting, the Poverty Policy Week and the Public Expenditure Review Consultative Meeting. One important aspect is that the national fora are open to members of parliament, civil-society organisations and private-sector representatives.

The new aid modalities have created new opportunities for dialogue both between the government and donors and among donors. There are programme-specific fora for dialogue on the budget support facility, the Swaps to health and education, and the Local Government Reform Programme. Donor sub-groups exist for each sector support programme and for the larger basket support programme. In addition, joint government-donor groups have been established in most sectors by integrating donor sub-groups with donor-government sector fora. Donors are represented by their field offices, except at Consultative Group meetings and less frequently at PER Consultative Meetings.

The government has strongly encouraged the shift towards programme support and budget support in particular. Government representatives, including President Mkapa himself, have argued in favour of such a shift, for example at the 2002 Consultative Group meeting. The TAS also encourages budget support.

◆ *Why go for programme and budget support?*

The reasons for this preference are easy to understand. Over a long period of time, the government has been faced by a poorly coordinated proliferation of individual projects, which have tended to undermine fiscal discipline and erode systems for managing government spending, by circumventing regular budgetary procedures. The recurrent cost implications of investments have been poorly controlled. Many projects have failed because of systemic and policy weaknesses in their operating environments. In short, transaction costs have been very high. Information has not been shared with the government and government ownership has often been limited. This is not to deny that some projects have

been successful and that, in certain circumstances, the project modality is sometimes the only option.

A basic donor argument in favour of the project modality is the need to protect projects from a non-enabling development environment. However, despite the odd success stories, the project modality often tends to undermine sustainability and government ownership, whilst increasing the transaction costs imposed on donors.

The programme aid modality, and budget support in particular, potentially avoids many of the drawbacks of project aid. Resources are pooled and coordinated, monitoring systems are shared by a large number of donors, aid resources are untied, and resources are channelled through government systems. In short, overall transaction costs are reduced and there is greater government ownership. Some transaction costs are transferred from the donors to the government and, within the government, from line ministries to the Ministry of Finance and the President's Office. Harmonisation tends to push up intra-donor transaction costs.

From the government's point of view, one of the main advantages of programme support, and budget support in particular,

Breakdown of development assistance to Tanzania

- External finance consists of loans, guarantees and grants from 22 multilateral institutions and 21 bilateral donors.
- Since the 1990s, bilateral and multilateral donors have each accounted for about 50 per cent of Tanzanian development assistance.
- Since its independence in 1961, Tanzania has been one of the largest recipients of assistance in sub-Saharan Africa, receiving a total annual average of USD 900 million (1994-2004).
- Foreign development assistance currently accounts for over 40 per cent of Tanzania's annual budget.
- The three dominant aid modalities are project aid (45%), general budget support (37%) and basket funds (18%).
- Project support was provided for a total of 304 projects in 2005, down from about 1,400 in the early 1990s.

(Ministry of Finance, 2006)

is that it has to be channelled more or less by definition through the Exchequer system. This places it under the control of the Accountant General's Office and means that it is subject to audits by the National Audit Office. From the donors' perspective, budget and sector support are based on an assumption that government authorities have sufficient capacity and, if not, that ongoing reforms will soon generate that capacity. This is why budget support and public finance management reforms are regarded as being particularly closely linked.

◆ *Budget support and basket funding*

Through the TAS, the Tanzanian government has made very clear that it finds project support the most challenging modality in terms of management, as it tends to create parallel systems, raise transaction costs and drain government capacity.

General budget support (GBS), on the other hand, is the preferred aid modality as it enhances the predictability of resources, national planning, the use of government systems, national ownership, accountability and transparency. GBS first started to be used in its present form in 2001 and is facilitated by a common performance assessment framework whose reviews are undertaken annually prior to each financial year. Eleven bilateral and three multilateral donors are currently providing GBS, some of them for the first time. During the past three years, 100% of the funds committed to GBS have been disbursed, most of them in the first half of the financial year (Ministry of Finance, 2006).

Basket funding, which also has increased substantially in the past few years, is based on the principle of donors and the Tanzanian government pooling resources for a specific sector or thematic area which is normally specified in a Memorandum of Understanding. The Memorandum describes the procedures for approval, disbursing funds, procurement, accounting, reporting, auditing, assessment, monitoring and evaluation. There are currently 13 such funds operating in various areas and sectors, such as the Primary School Programme and Legal Sector Reform Programme. The TAS regards basket funding as a transitional modality, that is to be used until such time as all assistance is provided in the form of budget support (Ministry of Finance, 2006).

◆ *A focus on harmonisation and alignment*

The strong lead taken by the government of Tanzania, as well as the fact that the donor community was keen to 'pilot' and honour the commitments made in the Paris Declaration, has led to a situation in which assistance to Tanzania is more aligned and harmonised today than it has been at any previous time. The recent second-generation PRS (known as the MKUKUTA strategy) forms the point of departure for most development cooperation. It requires donors to get together with the Tanzanian government to discuss priority areas and sectors for each intervention, an exercise that has drastically cut the number of donor-funded projects and interventions. The result has been not only fewer donor interventions, but also larger commitments and this in turn has led to more sector support and basket funding. The donors operating in each sector are also working together more closely. For each joint activity, a special group is created under government leadership that agrees on all the necessary details from content to reporting procedures. Disbursements are generally triggered by a set of quantifiable indicators that are based as far as possible on the MKUKUTA strategy. All this has led to a high degree of alignment between most interventions. Moreover, the interventions in question are channelled through the government budget system and are reported jointly, in accordance with the reporting and accounting system adopted by the Tanzanian government.

Harmonisation is reflected by increases in general budget support, with as many as 14 donors agreeing on a common procedure. Again, cooperation is based on the presence of a special joint working group, which agrees on a common framework, albeit not without long and complex negotiations. In order to gain the support of so many donors, it was necessary to suggest more than 70 indicators as disbursement criteria. This was not acceptable to the government, however, which argued that such a system was far too complex and too difficult to manage. After negotiations, the group finally agreed on 21 indicators, all of which are reflected in the MKUKUTA strategy. This result is now being implemented and disbursements have thus far been in accordance with commitments. However, in addition to meeting the conditions agreed by the working group, each donor also has to comply with its own specific national regulations. This has not so far resulted in any delays or problems.

The prominence of new aid modalities such as budget support and basket funds, including Swaps, has made it more important for donors to participate in the Public Expenditure Review (PER), since this gives them an insight into the budget process and PRSP implementation. It also means they have substantial information on the effectiveness of public funds in PRSP priority sectors. The object of the Public Expenditure Review (PER) is to provide input for the preparation of the government budget and enable an assessment to be made of its implementation. The PER assesses overall fiscal discipline, analyses government resources and spending on key priority areas, and acts as a check on whether the government's strategic priorities outlined in the PRS are in line with the country's overall macro-economic and fiscal situation (Odén and Tinnes, 2003).

Public Expenditure Review (PER)

- 1 Links budget allocation and spending with national strategies (such as the PRS and MKUKUTA).
- 2 Is a participatory process (embracing the government, donors, and civil-society organisations) introduced in 1998-99 to facilitate budget planning during the three-year MTEF period.
- 3 Evaluates the government's income-raising and spending performance. The findings are used to inform the next round of resource planning. The PER exercise begins in September and ends in May with an annual review.

◆ *The Joint Assistance Strategy for Tanzania*

A new Joint Assistance Strategy for Tanzania (JAST) is now under development. Its purpose is to document the progress made thus far in implementing a new aid relationship in Tanzania. The JAST is to be implemented from the new budget year, i.e. 2006-2007. It is designed to take the TAS to a higher stage of national ownership and leadership, and to reduce transaction costs by enhancing harmonisation and alignment with national priorities and national systems. The JAST seeks to align each donor's country assistance strategy with the government's long-term outlook for the period up

to 2025 and the MKUKUTA strategy. It states that donor funds should be used collectively for implementing the MKUKUTA strategy. The JAST was formulated in a consultative process involving the government, donors, non-state actors and parliamentarians. The key issues in the JAST include the division of labour based on comparative advantage, the use of technical assistance for capacity development, and recommendations for the increased use of general budget support.

The preparatory work on the document has now reached the final stage. It will be interesting to see whether it is signed by all the donors in the end, or whether it will remain a unilateral (i.e. Tanzanian) document. Even if it is not signed by the members of the donor community in the end, this document nevertheless represents a major step forward in terms of a partner country taking control and ownership of the aid process.

◆ *Capacity development*

Increased ownership, harmonisation and alignment plus the emergence of new aid modalities, budget support in particular, have boosted the importance of effective institutions and regulations in Tanzania. It is clear that the staff responsible for implementing and coordinating the budget, including external resources, accounting and reporting, must be sufficiently competent to comply with all the new obligations and live up to all expectations. This is an issue that is clearly expressed in both the TAS and the new JAST and is exercising all the parties involved in the process. The government has enacted a number of important new laws and regulations, and a special commission on corruption has presented an agenda for eradicating corruption. The new government elected early in 2006 has renewed the efforts in this respect.

One of the most encouraging developments has been the introduction of a new integrated financial management system for recording and managing spending. This system is now being used successfully by all central government spending agencies, as well as by local organisations, and is claimed to be one of the best in operation in Africa today. Other new laws have been passed on public procurement and the budget process. A computerised strategic budget allocation system in

line with the MKUKUTA strategy was put in place in 2004-5. The aid coordination section at the Ministry of Finance is operating well: it has been strengthened and upgraded, and improved aid statistics are being introduced. Statistics regarding aid flows has always been a difficult issue, and Tanzania is presently working on this. Finally, a medium-term pay policy was approved in 2003-4, paving the way for four ministries to receive selected accelerated salary enhancements.

The donors are also trying to find ways of improving capacity in Tanzania. A number of basket fund programmes to support capacity development in the government sector are currently being implemented. These include a civil-service reform programme, a legal sector reform programme and a private-sector reform programme. A major problem that still needs to be solved is how technical assistance should be arranged in the new aid architecture. So far, neither the Tanzanian government nor the donors have come up with a proposal that matches the reforms in other areas. The problem is under discussion, however, and is high on the government's agenda.

Challenges ahead

◆ *Challenges facing the Tanzanian government*

The new development cooperation relationship is built on mutual trust and an assumption that all parties appoint the best people to represent them. The consolidation and development of the improved relationship will thus depend on whether this trust can be maintained and extended. This will require constant hard work and commitment from both parties. The Tanzanian government, for its part, must demonstrate a willingness to improve political dialogue. Priority must be given to ongoing capacity development in order to improve accountability and transparency and so as to restrict the opportunities for corruption. The political will to stick firmly to national objectives and priorities is also essential. The priorities set out in the MKUKUTA strategy should be worked out in further detail and should play a clear role in the practical implementation of policy. The government should seek to enhance civil-society participation in the process in different ways, in particular through the mass

media. Parliament also has a crucial role to play in the implementation of the strategy. Finally, considerable thought needs to be given to the way in which development cooperation is managed. The management side needs to be strengthened, in both quantitative and qualitative terms (Wangwe, forthcoming).

◆ *Challenges facing donors*

It is vitally important that donors honour their commitments to the Paris Agenda and press forward with the many needed reforms. They still need, for example, to agree on an action plan for meeting the targets set in the 2005 Paris Declaration. Technical assistance also needs to be included on the agenda. The most difficult task, however, is for donors to convince the general public in their home countries that 50 years of development cooperation show that efficiency is contingent on a high degree of local leadership and ownership. Although progress seems to be slower and more risky with local ownership, there can be no sustainability without it. The most difficult thing to explain to the public is the increase in general budget support. Again, this is a necessity if ownership is also to lead to a decreased dependence on aid in the long run. This, in turn, puts great pressure on donors to constantly inform the general public in their countries about the importance of these new policies, and about the consequences of choosing other, less efficient routes. In conclusion, many problems still need to be surmounted if these new policies are to work. It is still far too early to say whether they are going to prove to be sustainable.

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