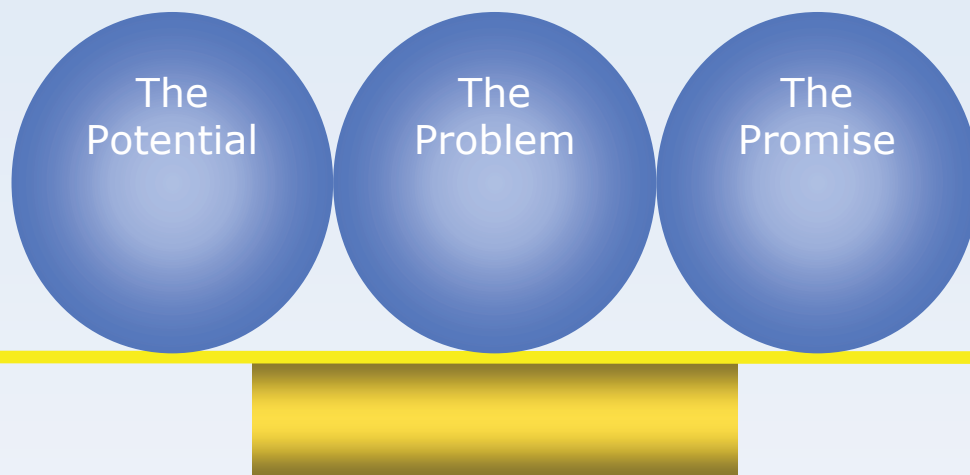


Aid Effectiveness and General Budget Support in Tanzania:



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February 2009

Table of Contents

INTRODUCTION.....	1
A CHECK AGAINST THE PARIS AID DECLARATION	2
AID POLICIES.....	4
GBS: BACKGROUND, FACTS AND OVERALL PICTURE.....	6
SELECTED ISSUES.....	12
CIVIL SOCIETIES.....	12
ACCOUNTABILITY.....	13
CAPACITY DEVELOPMENT	15
POVERTY	17
FINAL REMARKS AND CONCLUSIONS.....	19
CONSULTED LITERATURE.....	20

ABSTRACT¹

This paper is derived from reading diverse literature. It provides a perspective on increasing knowledge and understanding of aid effectiveness and General Budget Support (GBS) as the most preferred aid modality in Tanzania. As such, the paper investigates on the following issues: in the context of the Paris Declaration, has aid effectiveness improved at the global and national levels? Does Tanzania have stated aid policies? Is GBS really the appropriate instrument for development compared to other aid modalities? What is the impact of GBS on the poor? Does GBS create opportunities and/or obstacles for NGOs to fulfil their missions? Is GBS compatible with anti-corruption efforts? The paper concludes with some final remarks broadly stating that while GBS is not a perfect funding instrument, it has engendered certain positive contributions such as strengthening government policy and implementation capacities as well as highlighting areas that require better articulation such as in setting budget priorities and better rules of engagement among cooperating partners.

¹ This paper acknowledges useful comments and suggestions from Deo Mutalemwa, Gregory Smith and the Policy Forum Secretariat.

Introduction

Although the search for development effectiveness has been going on for many years, the Paris Declaration (PD) put it on higher gears. The Declaration recognises that increasing aid effectiveness requires a global commitment to increase aid on the part of donor countries. It urges a common search for more efficient ways of transmitting aid to achieve desired development results and goals. These goals are expressed in the Millennium Development Goals (MDGs) and aim to address the various dimensions of poverty.

In keeping with the PD and in advancing further the aid effectiveness agenda, Tanzania has often been commended for its progress on improving aid management and partnership¹. Nonetheless, she has many features of a typically aid dependent country and receives aid under three typical modalities: General Budget Support (GBS), basket funds and project funds. In light of the criticisms that have been levelled at the latter two aid modalities, GBS has emerged as the preferred modality by Tanzania.

Interest in GBS is not new. What is new is the broad international consensus-embodied in PD- on what needs to be done to produce the results wanted and where progress must be made to strengthen aid effectiveness. Much has been written about GBS and whether countries and Development Partners (DP) are working together to increase its effectiveness in the context of a partnership-based approach to development assistance.

Donors and recipient countries alike have been gaining experience with this aid modality, which promises greater scope for scaling up aid, supports capacity building efforts, strengthens accountability, greater efficiency in public expenditure and better links between policy and results. It also promises a higher quality of aid through improved coherence and opportunities for coordination, reduced transaction costs, greater country ownership, participation of non-state actors, and potentially greater development effectiveness than traditional modes of aid delivery. Nonetheless, GBS has also raised scepticisms and criticisms among some (independent) observers and commentators who question its efficiency and effectiveness to the process of growth and poverty reduction.

This paper does not attempt to address all issues related to GBS. Rather and with respect to Tanzania, the specific questions that this paper will try to answer are the following ones:

- In the context of the Paris Declaration, has aid effectiveness improved at the global and national levels?
- Does Tanzania have stated aid policies?
- Is GBS really the appropriate instrument for development compared to other aid modalities?
- What is the impact of GBS on the poor?
- Does GBS create opportunities and/or obstacles for NGOs to fulfil their missions?
- Is GBS compatible with anti-corruption efforts?
- Does GBS contribute to capacity development?

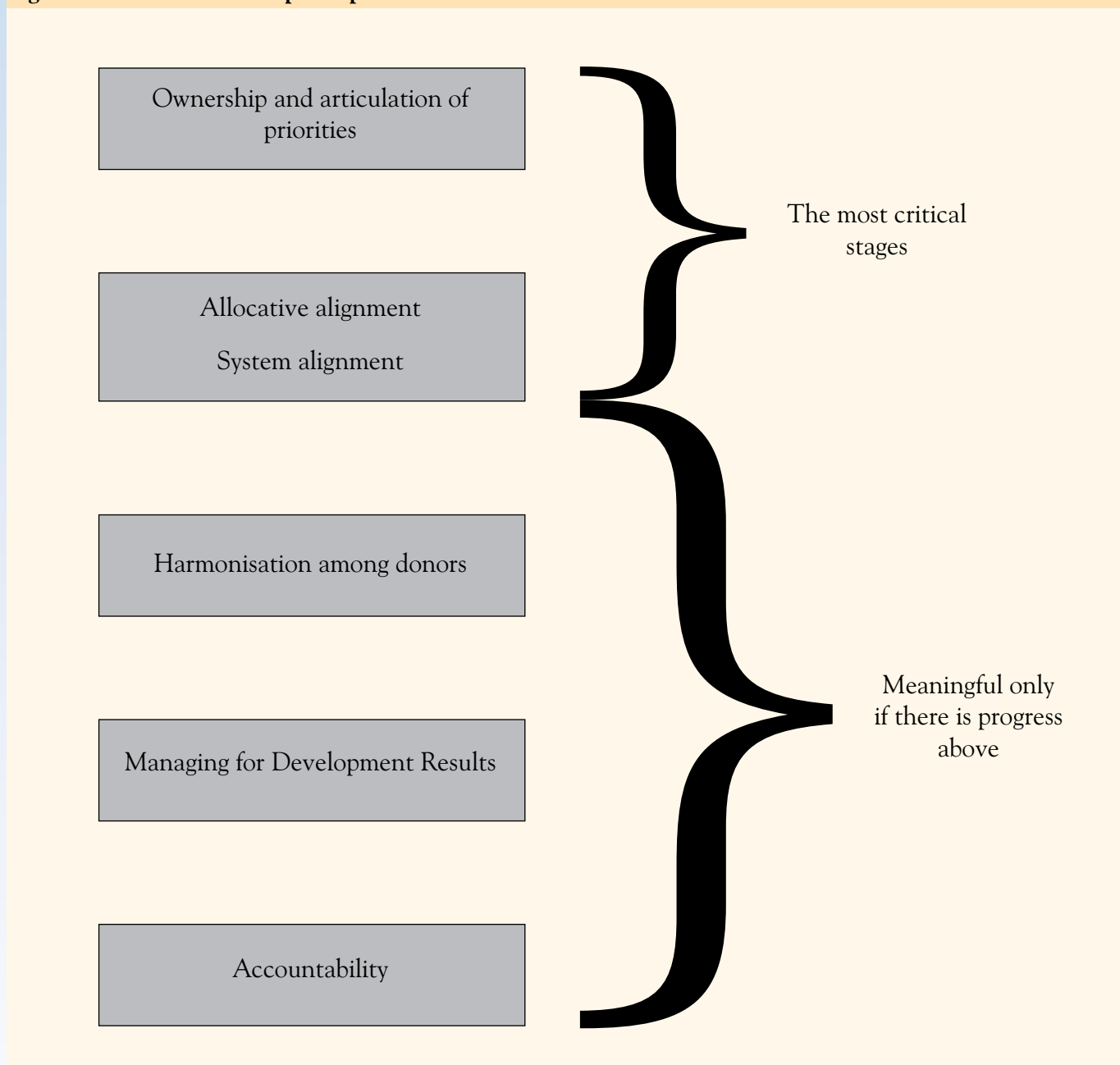
¹ United Republic of Tanzania (2008c)

A Check against the Paris Aid Declaration

The Paris Declaration (PD) on aid effectiveness is part of a global commitment to reduce poverty and inequality, increase economic growth, develop capacity and achieve the MDGs. It provides an action-oriented road map for reforming the delivery and management of aid, with the aim of making it more effective. Ultimately, improved aid effectiveness will benefit development.

PD is organised around five interconnected fundamental principles (see Box 1 and Figure 1) that are important for the effectiveness of not only GBS but all aid modalities: ownership, alignment, harmonisation, managing for development results and mutual accountability. By fully implementing these principles, countries and development partners (DPs) can make major breakthroughs in improving aid effectiveness, especially at the country level.

Figure 1 How do the PD principles connect?



Source: Adapted from World Bank (2008:14)

Box 1- The Paris Declaration commitments

- **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 aid in dialogue with donors, while at the same time encouraging the participation of domestic non-state actors. PD calls upon donors to respect this leadership and strengthen the partner countries' capacity to exercise it.
- **Alignment:** Donors seek to 'align' their support with priorities and strategies set by partner countries, rather than imposing their own priorities (allocative alignment). This also means building up and relying on the partner countries' own systems (systems alignment) 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 operating mechanisms and procedures.
- **Harmonisation:** efforts by donors which aim at bringing the policies and procedures that govern their support as much into accord as possible, so as to avoid imposing varying and conflicting requirements on partner countries which reduce the effectiveness of the development cooperation efforts. The Declaration emphasises the need for harmonising, increasing transparency and improving collective effectiveness (through division of labour) of donor actions.
- **Managing for development results (MfDR):** 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 instill the practice of results-based management.
- **Mutual accountability:** Both donors and partners 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 assessed by the DPs and the partner countries with the help of country-level mechanisms.

Source: OECD (2005)

Now past the halfway point between the endorsement of the principles and commitments in the PD and the date set for their implementation (2010), the question is, has aid effectiveness improved?

The answer is not straightforward as observed at the Accra High Level Forum on aid effectiveness of September 2008. Instead several interlinked factors dictate this position.

Firstly, much has been written about the application of the five Paris Commitments and whether countries and DPs are achieving the goals they set for themselves. These goals cannot be achieved unless the value of the PD as an instrument of change is understood and accepted, the gaps in the Declaration are analysed and acknowledged, and all relevant stakeholders and groups involved in aid effectiveness are given substantive representation in the mechanisms that contribute to aid effectiveness.

Secondly, concerns have been expressed about the dangers of deepening aid dependence. Aid cannot be phased out rapidly but plans should be made to free countries from high aid dependence. It is in this context that an exit strategy for phasing aid (to public sector budgets) should be part of the dialogue between DPs and governments, anchored on an explicit ideology by making recipient countries economically competitive. A credible exit strategy can only be prepared and followed through with a strong leadership in economic and aid management. In view of an exit strategy, robust mobilisation of local public revenue needs to be promoted actively. That is why in some countries -Tanzania is no exception- an increase in tax revenue is part of the agreement between the government and the donors.

Thirdly, addressing continued inefficiencies in the governance systems- at both the international and country levels- has become a priority, and a series of high level meetings in 2008 were critical for evaluating such efforts and building consensus to move forward and strengthen aid effectiveness. These meetings included the Accra High-level Forum on Aid effectiveness², the United Nations Summit on the MDGs in New York in September³ and the Financing for Development follow-up meetings in Doha in November⁴. Commitments undertaken and promises made in previous forums (notably in Monterrey in 2002; and in Paris and in Gleneagles in 2005) were reviewed and a new impetus was given to reforming the way aid is delivered. The process of UN reform “Delivering as One” also has the potential to improve the effectiveness of the (future) aid architecture⁵.

Aid Policies

Aid is ineffective when aid policies are poorly articulated and do not reflect national development aspirations. Aid policies are crucial for aid effectiveness for the following three reasons:

- To serve as national framework for managing development cooperation between the government and DPs
- To outline the obligations of the cooperating partners and other parties (e.g. CSOs, private sector) in contributing to poverty reduction goals and the international development agenda
- To spell out best practices for supporting country ownership of the development process, aid harmonization and alignment, systems for aid delivery and monitoring and evaluation of aid programmes.

Tanzania’s aid effectiveness principles are encapsulated in the Joint Assistance Strategy (JAST)⁶. JAST (2007-2011) is a medium-term framework for enhancing aid effectiveness at the country level and in managing development co-operation, firstly within the government and secondly between the government of Tanzania (GOT) and DPs in order to achieve the goals set in the national development and poverty reduction goals under the MDGs and the National Strategy for Growth and Reduction (or MKUKUTA as it is known in Swahili). In effect, the JAST symbolises Tanzania’s aid policies as well as elaborates strategies and approaches for aid management.

The JAST is the framework for operationalising the PD as well. Approved by Cabinet in 2006, it has been supported enthusiastically by most donors, 19 of whom signed an MOU with GOT committing both sides to the JAST. Its Action Plan elaborates concrete implementation actions of the MOU commitments with appropriate monitoring indicators for assessing progress in close reference to the Paris Declaration benchmarks.

² The conference website is <http://www.accrahlff.net/WBSITE/EXTERNAL/ACCRAEXT/0,,menuPK:64861886~pagePK:4705384~piPK:4705403~theSitePK:4700791,00.html>

³ The conference website is <http://www.un.org/millenniumgoals/2008highlevel/>

⁴ The conference website is <http://www.un.org/esa/ffd/doha/index.htm>

⁵ Burrell et al. (2006)

⁶ United Republic of Tanzania (2006)

JAST presents a matrix of the Action Plans and Monitoring with identification of responsible agencies, time frame, means for monitorable outputs, and output indicators around five objectives of:

- (a) Strengthening national ownership and government leadership of the development process,
- (b) Managing resources for achieving results of MKUKUTA,
- (c) Strengthening domestic and mutual accountability
- (d) Alignment of DP support to GOT priorities, systems, structures and procedures, and
- (e) Harmonisation of GOT and DP processes and actions.

JAST stresses national ownership of policies and development programmes but equally demands mutual and domestic accountability for processes and results. It accommodates all aid modalities for scaling up aid but clarifies that GBS is the government's preferred modality and thus expects the DPs to increasingly shift to the GBS, while using basket funds where it is considered appropriate by the GOT. In DPs' funding of baskets and projects they should support domestic priorities and programmes, and base their choices for support on the GOVT's specific requests. The supported activities should also be integrated in the national budget process and operate within GOT structures, systems, regulations and procedures.

JAST also stresses other aspects such as:

- Capacity development of parliamentarians, councillors, politicians, and non-state actors so as to enhance demand for accountability.
- Promoting the structures for improved dialogue with all development stakeholders, at all levels and processes, and in particular on governance and accountability.
- Expects DP assistance to minimise transaction costs through simplification and rationalisation of aid practices (the idea of "quiet times" was piloted in Tanzania).
- Establishes principles for transparent, timely, clear and accessible information sharing as well as proper follow-up mechanisms.

Though it is early to judge the efficacy in JAST implementation, many government officials and donors are optimistic; though a few caution about the need to tighten JAST implementation discipline and especially to enhance the capacity of the Ministry of Finance in exerting leadership in many areas targeted by JAST. Little movement so far on the JAST can be attributed to lagging areas, some of which were persistently evoked during the 2007 GBS Annual Review⁷, pertaining to:

- (i) a prolonged absence of a technical assistance policy.
- (ii) fragile discipline in the donor division of labour,
- (iii) lack of assertive government leadership and
- (iv) weaker capacities of institutions in areas outside Dar-es-Salaam, especially in remote areas

As complement to the JAST arrangement, there is the Performance Assessment Framework (PAF) attached to the JAST MOU which is to be used by the DPs and the GOT as a tool for dialoguing on GBS and not enforcing policy change. This instrument sets out agreed medium term targets and indicators for improvement on macroeconomic stability and performance in the public sector. It also specifies annual measures to be taken by GOT to achieve the agreed targets. The PAF should be used for setting priorities and guiding the focus of technical support from the donors, consistent with other processes such as the Medium Term Expenditure Framework and the Poverty Monitoring System.

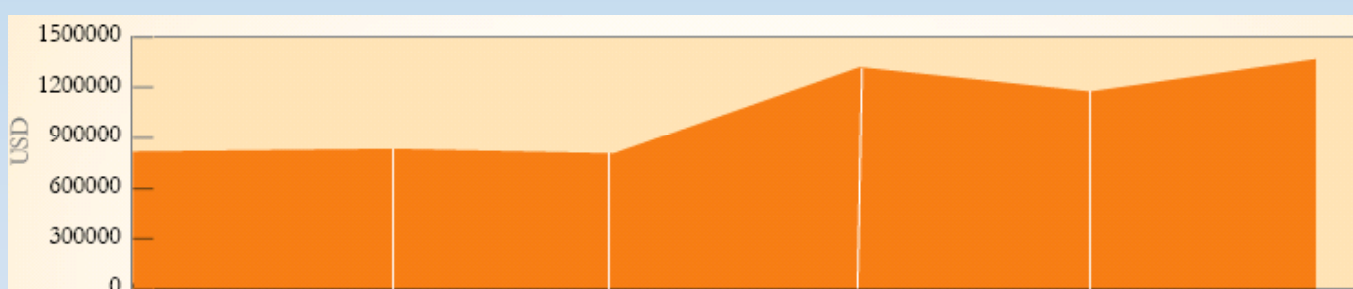
During the 2008 PAF annual review, the conclusion was that Tanzania had made good progress in achieving its education and health targets, although there is room for improvement in the quality of education and health services. However, progress on agriculture, energy infrastructure, the investment climate, and the core reforms has not been sufficient to make a big impact on the reduction of income poverty.

⁷ United Republic of Tanzania (2007)

GBS: Background, Facts and Overall picture

Tanzania's tax base is still small to generate adequate domestic revenues for implementing poverty reduction plans. For this and many other reasons, Tanzania is highly dependent on external support for its development since the 1960s. Thanks to continued macroeconomic and institutional reforms that provide assurance and confidence in the use and management of development assistance and domestic resources, Tanzania has seen a (sharp) increase of aid support in the period 2002/03 - 2006/2008 as seen in Figure 1.

Figure 1-Overseas Aid Trend 2002/03-2006/07 (USD in Thousand)



Source: Reproduced from United Republic of Tanzania (2008c:14)

Tanzania receives aid under three modalities: project modality, sector and programme baskets and GBS. Given that aid funds support national development and poverty reduction efforts, the following major cross-cutting programmes may also fall within the context financing context of GBS:

- Business Environment Strengthening for Tanzania (BEST)
- Health Sector Reform Programme
- Legal Sector Reform Programme
- Local Government Reform Programme
- Primary Education Development Programme
- Property and Business Formalization Programme for Tanzania
- Public Financial Management Reform Programme
- Public Service Reform Programme
- Secondary Education Development Programme, etc.

The relative weight of each aid modality in the national budget is indicated in Table 1.

Table 1- Aid composition as percentage of total overseas aid recorded in the national budget							
Year	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
GBS	30	38	34	38	42	38	36
Basket funds	16	18	21	20	16	12	18
Project funds	54	44	45	42	41	51	46

Source: United Republic of Tanzania (2008a)

With respect to GBS, this aid modality has a number of advantages (Box 2) and particularly its procedures being compatible with MKUKUTA and Medium Term Expenditure Framework (MTEFs, more details on this process is provided in another section of this document). Thus it allows proper accounting of funds under the government systems. The attainment of these objectives depends on the following:

- Capacity of the government system to absorb additional resources and to manage the delivery of public and private services.
- Designing national/sectoral policies and programmes with qualified human resources.
- Effective management of personnel and the payroll
- Effectiveness and transparency of public procurement

Box 2- Why in favour of GBS

There are a number of advantages associated with GBS in Tanzania. In effect, they corroborate what is contained in the JAST in Tanzania. Only a sample of these GBS attributes is listed below:

- Ability to disciplining donors in adopting priorities that match with the recipient country's owns
- Cuts down on transaction costs to government and to donors, at least in the long run once the relative weight of GBS is large enough compared to other funding modalities Leveraging contestability of resources, thus able to balance service delivery needs and outcomes with requirements for sustainable growth now underlined under MKUKUTA
- Promoting local ownership of the development process and building up local capacity to achieve desired development results on poverty reduction
- Providing better incentive for policy dialogue on wide ranging issues beyond those targeted by the assistance from a specific donor so as to determine spending priorities: actually a clear advantage for small donors and small non-government stakeholders in that they can extend their reach beyond the magnitude suggested by the amount of their assistance or capacity
- Strengthening GOT own resources management systems by respecting and using them; this has particularly strong reference to the budget process and systems

The introduction of GBS modality in Tanzania dates back to the 1990s when like-minded DPs supported the Multilateral Debt Fund (MDF). Among the pre-requisites for the enhanced HIPC debt relief was for a country to have had an IMF/World Bank programme with an established good track record of economic management and debt services particularly to the Multilateral Financial Institutions (MFIs). The MDF was therefore established to assist the Government in meeting MFIs debt services obligations, without cutting financing to ongoing programmes and to social sectors. The Poverty Reduction Budget Support (PRBS) facility grew out of the MDF which was established in the late 1990s to help the government meet its debt service obligations to multilateral financial institutions. When Tanzania reached the decision point for debt relief under the HPIC in 2000, the reason for the MDF's existence disappeared. Contributing MDF donors thus created the PRBS facility to continue providing the Government with flexible assistance in support of its PRS.

The successful macroeconomic management track paved the way for Tanzania's enhanced Heavily Indebted Poor Country Initiative (HIPC) debt relief and the subsequent 2000-2003 poverty reduction strategy (PRS). Nonetheless the latter had been based on a relatively low level of non-state participation and moreover, donors had exerted much more influence than domestic constituencies. The PRS provided the framework for coordinating and channelling resources for poverty reduction with clear targets, till the review of its three years of implementation which culminated with the formulation of the second generation PRS 2005-2010 (MKUKUTA) that also added emphasis on the aspect of growth to poverty reduction.

It is worthy mentioning that there are two other factors that served to create a particular favourable environment for the introduction and use of GBS in Tanzania⁸. Firstly, the virtual breakdown of relations between Tanzania and its development partners in 1994 led to a group of independent advisers being invited to review the state of aid relations and make recommendations for improvements. They were led by Prof Gerry Heillener and produced a document which came to be known as the "Heillener report". This

⁸ Daima Associates and ODI (2005)

acknowledged the problems of macroeconomic mismanagement by the Government but broke new grounds in considering the ways in which donor behaviour had also contributed to this situation. The resulting recommendations set in train a process which culminated in the preparation of the Tanzanian Assistance Strategy (TAS), which has been succeeded by JAST.

Secondly, amongst the achievements of the third phase government under President Benjamin Mkapa was the establishment of a strong leadership within the Ministry of Finance, so that by 2000 when discussions on the design of the PRBS facility were beginning there was a management team capable of driving this process and capable of generating confidence among the PRBS partners. It seems clear that having the right leadership to get the process started was crucial.

Most major donors active in Tanzania provide some GBS through the PRBS facility. The facility is a single account into which donors disburse the GBS they provide to the government and can be drawn upon by the government when necessary.

Eleven bilateral and three multilateral DPs provide aid through the GBS modality. Their planned share of total GBS for the FY 2008/09 is indicated in Table 2 below.

Table 2 - Planned share of GBS for FY 2008/09		
GBS partners	Amount in billion Tsh	Percentage of Total GBS, FY 08/09
AfDB	110,1	12.87
CANADA	-	0
DENMARK	23.9	2.79
DFID	217.9	25.46
EC/EU	50.9	5.89
FINLAND	23.6	2.76
WORLD BANK	199.0	23.25
IRELAND	23.4	2.73
JAPAN	25.6	3
GERMANY/KfW	13.9	1.62
NETHERLANDS	47.2	5.52
NORWAY	47.5	5.54
SWITZERLAND	6.8	0.79
SWEDEN	66.7	7.79
Total	856.0	100

Source: United Republic of Tanzania (2008a)

Although donor partners have grown confident in the use of GBS, there is still a substantial amount of aid being spent via other modalities though it may be recorded in the national budget as indicated Table 1.

It should not be forgotten that donors aim to minimise their risks. In this context, it is a basic principle of instinct of not to put all eggs in one basket. A recent report from the Ministry of Finance and Economic Affairs stated that GBS and basket funding continue to perform well whilst project funds are still posing challenges⁹. These include:

- The lack of disclosure of MDAs (Ministry, Department, Agency) to account for the expenditures of direct project funds disbursed by DPs.
- Non-reliability of MTEF projections, in particular for the second and third year of the MTEF period and this impairs strategic planning;
- Funding delays and irregularities – in particular, project funds whose disbursements depend on implementation progress, various prior actions, DPs procedural requirements, and in-year performance assessments;
- Difficulties in getting accurate confirmation of expected project funds by MDAs and Regions and integration in the latter's MTEFs.

Furthermore, the communication of successes and failures of GBS and, through that, its understanding by the public is still in their infancy. That is why in addition to GBS, other programmes and projects will remain in development cooperation portfolios. Donors have to find ways to account for and to present the achievements of funds provided as GBS and other program-based approaches to their various home constituencies.

Turning now to the issue of predictability, does aid arrive on schedule? The Paris Declaration states that aid must be predictable if it is to be effective. To this end, it was agreed at the 2008 Accra High Level Forum that¹⁰:

- Developing countries will strengthen budget planning processes for managing domestic and external resources and will improve the linkages between expenditures and results over the medium term
- Donors will provide full and timely information on annual commitments and actual disbursements so that developing countries are in a position to accurately record all aid flows in their budget estimates and their accounting systems.
- Donors will provide developing countries with regular and timely information on their rolling three- to five-year forward expenditure and/or implementation plans, with at least indicative resource allocations so that developing countries can integrate it in their medium-term planning and macroeconomic frameworks. Donors will address any constraints to providing such information.
- Developing countries and donors will work together at the international level on ways of further improving the medium-term predictability of aid, including by developing tools to measure it.

The lack of sanctions on donors if they do not deliver on these promises seriously undermines the notion of mutual accountability and the achievement of poverty reduction objectives so prominent in the PD and quite germane in the preference for the GBS modality. This suggests that there is a need to build into the recipient's system intermediate actions or sanctions which are not disruptive in terms of stability and predictability of aid resources.

GBS particularly when provided by bilateral donors may be more prone to unpredictability than other aid instruments because it is easier to hold up disbursements in the face of changing political circumstances. For example, the UK withheld £10 million from its FY02 disbursement when it was disclosed that the Tanzanian Government intended to purchase a \$40 million air traffic control system designed for military use¹¹.

⁹ United Republic of Tanzania (2008b:14)

¹⁰ OECD (2008)

¹¹ Frantz (2004:16)

There is evidence of increased predictability of GBS flows and improved data on commitments and projections in Tanzania. In principle, GBS resources are supposed to be disbursed during the first quarter of a given fiscal year. In practice, however, this does not happen 100 percent. The majority of the DPs disburse by the second quarter, but there are those who disburse as late as the end of the fourth quarter; and there are also those who fail to disburse completely. This is a difficult challenge but its effects can be minimised if DPs could improve the accuracy of the information they provide regarding their commitments.

The predictability of GBS Partners in terms of disbursement and timing has been analysed in Table 3 below. The general performance in terms of front loading for GBS is good for 7 DPs although other DPs didn't front load the amount at it was committed. As noted in the table, the performance for one DP is worsening over time.

Table 3 -Predictability of GBS funds

GBS Partner		GBS Partner performance 2007/08			Total 07/08	Total 06/07	Total 05/06	Total 04/05
		Timing Predictability	Front-loading	Amount Predictability Score				
ADB	SAL II	0	0	0	0	5	3	0
CIDA	PRBS	0	0	0	0	8	15	15
Denmark	PRBS	1	1	1	3	4	3	6
EU	PRBS	1	2	2	5	4	4	3
Finland	PRBS	1	2	1	4	3	3	4
Ireland	PRBS	1	1	1	3	3	3	7
Japan	PRBS	2	3	1	6	3	3	5
KfW	PRSC	4	4	1	9	8	7	3
Netherlands	PRBS	1	1	1	3	4	4	4
Norway	PRBS	1	1	1	3	3	3	3
Sweden	PRBS	1	1	1	3	4	4	3
Switzerland	PRBS	1	1	1	3	3	3	10
UK	PRBS	1	1	1	3	3	4	3
World Bank	PRSC	1	2	1	4	3	6	3
KEY		1 - Early or same Q as committed	1 - Q1	1 - Same amount or more				
		2- Late by 1Q	2 - Q2	2 - Less (<10%)				
		3 - Late by 2Q	3- Q3	3 - Less (>10%)				
		4 - Late by 3Q	4 - Q4	4 - Less (>50%)				
		5 - Did not pay	5 - Not at all	5 - No disbursement				

Source: Reproduced from United Republic of Tanzania (2008b)

In keeping with the value of aid effectiveness, including recognising the advantages of the GBS aid modality as reported in Box 2, a Medium Term Expenditure Framework

(MTEF) has been in place since 1998 and is supported by participatory Public Expenditure Reviews (PERs). The following paragraphs contain more detail on these processes¹².

¹² ESRF (2005) and HakiElimu and Policy Forum (2008: 14,18)

The MTEF and PER processes have been introduced in order to improve the link between national priorities and the budget allocation system. In terms of the MTEF, the Government has used it as a tool to translate its medium term policy objectives and targets into budgetary provisions by:

- advising the different public budget stakeholders of the main spending priorities for the following years' budgets;
- contributing to a better informed public debate on public service delivery;
- helping to explain the underpinnings of the more detailed allocations to MKUKUTA Clusters (growth and reduction of income poverty, improvement of quality of life and social well being, good governance and accountability, macro group and public financial management) and MDAs, Regions and Local Government Authorities (LGAs) in the years to come.

In practice, however, implementation of the MTEF has stagnated. Outer years are rough estimates and typically not credible. So each year the budget is usually prepared from scratch rather than being a rolling update of the outer years from the previous MTEF. Moreover, a fully functioning MTEF could prove to be difficult to achieve unless action on two fronts is taken. First, full information is provided of donor resources and their predictability is enhanced as mentioned elsewhere. Second, there is political and institutional capacity within the Tanzanian Government to abide by the sequencing and prioritisation of programmes reflected in the MTEF. It is challenging for both the government and the donors to have competent representations in the working groups and to develop a shared perspective.

With respect to the PER, its process in Tanzania began as an annual assessment conducted by the World Bank to evaluate the Public Expenditure Management (PEM) by:

- including annual studies which are supposed to be incorporated into the planning and budget guidelines for the following year
- facilitating better long term planning
- ensuring that expenditure is optimally budgeted and fully accounted for within the context of the national budget process

The Tanzania Government has made progress in strengthening PEM with the view to minimize fiduciary risks as indicated below:

- The Public Finance Act No. 6, 2001, Part II on Control and Management of Public Finance empowers the Parliament to maintain control over public money while the MoFEA provides full and transparent accounts to Parliament for all public expenditures.
- Public funds are managed by opening up of sub-treasuries at the regional level and, transferring funds from central government directly to beneficiaries in LGAs (e.g. councils, schools and clinics etc...) not through related sector ministries.
- Setting up Tanzania's accounting system on the Integrated Financial Management System (EPICOR) to monitor public expenditure on a daily basis enhances recording of expenditure information and linking central government with sector ministries, sub-treasuries, Regional Administrative Secretaries (RAS) and LGAs. It is intended that all Local Government Authorities be linked with the IFMS (Integrated Financial Management System) in the medium term.

These improvements have contributed to giving comfort to the DPs, particularly GBS contributors. Nonetheless, the PER process is not without challenges which must be addressed. It is worth quoting them in length¹³:

¹³ HakiElimu and Policy Forum (2008:16)

“The [PER] process itself takes time. Competing priorities within government mean that they do not always prioritise participation in the PER process to enable it to function efficiently and effectively. This has led some participants to ask whether or not government values this process as a useful tool for improved performance or whether or not it is seen as conditionality for donor funding. There have also been consistent delays in implementation and the timetable has yet to be followed, making it difficult for the PER process to inform the budget cycle as planned. Even the studies that have been done on time, it is not clear how much they have actually informed planning and budgeting. Finally, the PER process still has too many donors in proportion to domestic participants. What’s more only a few civil society participants have access to this process and their participation is upon invitation from the MOFEA [Ministry of Finance and Economic Affairs]. Additionally civil society participants are not provided sufficient information early enough for them to perform their representative role effectively”

Selected Issues

GBS funds have raised scepticisms and criticisms among some (independent) observers and commentators who question its efficiency and effectiveness to the process of growth and poverty reduction. This section addresses the following questions: What is the impact of GBS on the poor? Has GBS created obstacles or opportunities for NGOs to fulfil their mission? Is GBS compatible with anti-corruption efforts? Does GBS contribute to capacity development?

Civil societies

Civil societies are important actors in the discussion of aid and GBS effectiveness for two reasons. Firstly, because of their importance as development and democratic actors in their own right -as contributors to more inclusive development processes, as advocates of the interests and human rights of their constituencies and as source of public policy alternatives. Secondly, because of the space that they occupy in the international aid architecture as aid donors, recipients and partners and influential shapers of international opinion. They are therefore able to (i) improve: add, correct or change policy issues; hold policymakers accountable; evaluate and improve their own activities; (ii) inform: represent the views of others; share expertise and experience; put forward new approaches and (iii) inspire: generate support for an issue or action; raise new ideas or question old ones; create new ways of framing an issue.

In 2001, there were about 3000 local and international NGOs based in Tanzania¹⁴. The registration of newcomers now stands at 57 a month¹⁵. NGOs assist in strengthening the civil societies through informing and educating the public on various issues, for example: by helping attune to government policies and to question what GBS funds buy and where they are ultimately spent.

Moreover, the Tanzanian press, like NGOs, has been stronger on drawing attention to specific abuses of public funds such as the External Payment Arrears Account and Richmond Development Corporation scandals of 2008 but they have been largely unable to relate these to the complexities of institutional relations, policy processes and policy debates. Newspapers (which provide greater depth) have limited circulation, while radio (typically subject to greater state control than the print media) provides more limited opportunities for detailed debates about aid performance and impact at country level.

¹⁴ United Republic of Tanzania (2001)

¹⁵ Foundation for Civil Society (n.d)

According to a study on the implication of GBS on Tanzanian NGOs, the onset of GBS has raised the question as to the effectiveness of NGO participation in the changed relationships that may be engendered by the GBS: in respect of the relationships of NGOs with the GOT, and with the donors¹⁶. The study revealed a number of interesting findings. These are:

- NGOs do not have any reasons to fear the ascendance of GBS. GBS does not threaten NGO funding prospects vis-à-vis the donors. On the other hand, GBS strong association with policy frameworks implies that NGO involvement will require more sophistication and corresponding skills.
- GBS' benefits to NGOs are mainly indirect in terms of greater resources in the public budget that can be accessed by the NGOs and the fact that policy engagement of interest to NGOs now covers issues affecting total public resources.
- NGOs face capacity and financial constraints in venturing into policy engagement, more required under the regime of GBS. Nevertheless, they try to cope by reorganising themselves in networks to share information and participate in forum open to them. They also try to modify internal structures to meet the challenges.
- Although sector and subject-focused networks have emerged and are consolidating, the same cannot be said of nationwide multipurpose NGO networks, both of which would have substantially eased the capacity constraints by supplementing the support that few international NGOs give to individual NGOs and by promoting networking to reduce the need for unnecessary internal structuring or overstretching to cope with policy dialogue.
- The NGO Act 2002 is seen differently by different stakeholders. Some NGOs perceive undue government interference in the provisions of the Act, feeling that it wants to unduly control NGO affairs. This position is contested by government.
- There has been slow, even lack, of responsiveness of legislative bodies and policy makers to public demands to account for service and policy delivery. NGOs have not mounted enough pressure to enhance responsiveness of legislative bodies and policy makers to public demands to account for service and policy delivery.
- The difficulties in information release in Tanzania does not appear to be confined to government alone but extends to civil societies, the private sector, etc, arising out of mistrust of those seeking information.

The study concluded that GBS has not created obstacles to NGOs to fulfil their missions. Only relationships have become complex and thus more demanding on all parties, since they are required to consult for more effective policy making, management and monitoring. GBS is a compatible instrument for carrying out these functions.

Accountability

Greater transparency and accountability are powerful drivers of progress as stated in the Paris Declaration. In the case of the GBS modality, it requires a basic level of trust by DPs in the quality and integrity of the national financial systems. Accountability, which is an important tenet of the PD, enhances this trust. Lack of accountability undermines poverty reduction and hinders economic growth by discouraging investment and reducing confidence in public institutions and systems. Corruption and lack of transparency, which erode public support, impede effective resource mobilisation and allocation and divert resources away from activities that are vital for poverty reduction and sustainable economic development.

Donors believe GBS offers insights into where the system is deficient and provides the forum for working with the Government to plug the holes. However, one of the major challenges of providing budget support is that it requires a well functioning public financial management (PFM) system. When it is weak, it may turn off donors and prompt them to shunning the national PFM system, thereby weakening it if it is devoid of handling important investments resources. The "Chicken and Egg" dilemma is broken by donors willing

¹⁶ Action Aid and Care (2006)

to use the system so as to strengthen it, especially where it is weak.

An important element of the PFM processes is the procurement of goods and services. While the Public Procurement Act of 2004 was an important step to reduce opportunities for corruption, its effective implementation is still lacking. There have been technical improvements in the public procurements system; however, as reports by the Auditor General highlighted the areas of fraud in the public procurement process¹⁷. The relative lack of transparency in the procurement process allows room for corruption. Since procurement accounts for 70% of the government's expenditure, it is important that it is conducted in a credible and transparent way. Involving civil society, business and government employees in monitoring the probity of PFM, can be an effective and often cost-efficient complement to official and institutional anti-corruption measures.

Several recent studies and surveys have suggested that Tanzania is either not progressing at all or at too low a speed in areas that are key to combating corruption or ultimately reducing poverty¹⁸. In addition, most recent cases where aid has been suspended on account of corruption or governance concerns have been extensively reported in the Tanzanian media. That is why GBS funds are sometimes crudely characterised as "money for governments to do what they like with". Under such sentiments, it can be argued that GBS is more prone to corruption where the PFM system is frail; but this would be an overly sweeping statement.

In December 2006, Denmark reduced its GBS funds to Tanzania by 20% for the financial year 2007/2008, as the Government of Tanzania did not fulfil its commitment to present long awaited anti-corruption legislation. This came a few months after Norway had announced in August 2006 the suspension of funding to a road project in the country, after embezzlement of funds worth US\$ 1 million was uncovered¹⁹. Corruption concerns have also recently led Finland to consider cutting bilateral aid to the country. In March 2008, while currently continuing aid to Tanzania, Finland announced withholding the disbursement of an additional € 2 million for GBS until a special audit of the Bank of Tanzania was completed on the External Payment Arrears case²⁰. The lesson of these episodes is that dissatisfaction of one donor on a financial obligation can be contagious in that it makes other donors more jittery and risk averse in disbursing GBS funds.

The Government of Tanzania continues to undertake concerted measures against corruption through the National Anti-Corruption Strategy and Action Plan (NACSAP) coordinated under the President's Office, Good Governance Coordination Unit (GGCU). The Prevention of Corruption Bureau (PCB) as Government's independent agency oversees the compliance to such a strategy. In addition, other ongoing reforms including Public Financial Management Reform Programme (PFMRP), Local Government Reform Programme (LGRP) and Public Service Reform Programme (PSRP) are implemented in order to enhance the institutional capacity within the Government and make important contributions to strengthen accountability. These reform packages carry inherent anti-corruption measures, which are funded in the framework of the respective reforms basket funds or are under wider cross-sectoral processes financed through the GBS.

The discourse of accountability, especially mutual accountability cannot end without evoking the role of the

¹⁷ NORAD (2008)

¹⁸ Transparency International's Corruption Perception Index for 2008 http://www.transparency.org/policy_research/surveys_indices/cpi , World Bank's 2007 governance indicators <http://info.worldbank.org/governance/wgi/index.asp> , 2008 Ibrahim Index of African governance <http://www.moibrahim-foundation.org/index-2008/> and the Global Integrity Index for 2007 <http://report.globalintegrity.org/Tanzania/2007/notebook>

¹⁹ Anti-Corruption Resource Center-U4(2008:2)

²⁰ Ibid

Independent Monitoring Group (IMG) in fostering GBS in particular and aid relationship in general.

The IMG concept grew as a follow-up to the Heillener Report mentioned earlier in this paper. The IMG assesses government and donors 'performance in fulfilling respective commitments under the JAST framework and under obligations contained in other areas of collaboration, and it offers pertinent recommendations for improving accountability and aid effectiveness.

The terms of reference for the IMG are endorsed by the GOT and DPs and its reports produced by the IMG are subjected to joint discussions between the GOT and DPs with a view to reaching agreements on the concrete steps for improving the effectiveness of aid and development co-operation in general. A technical secretariat consisting of representatives from both sides has been established to carry out day to day monitoring of progress in implementing the recommendations of the IMG that have been agreed by both parties (government and development partners).

Capacity Development

Successful development depends to a large extent on a government's capacity to implement its policies and manage public and aid resources through its own institutions and systems. In the PD, developing countries committed to strengthen their systems and donors committed to use those systems to the maximum extent possible. In this context, government planning, budgeting and financial management systems are fostered by GBS while building the capacities of government in general to effectively carry out its functions in all other areas.

A report on Tanzania's experience on capacity development for mutual and domestic accountability states that capacity is a dynamic concept often referring to "the ability of people, institutions and societies to perform functions, solve problems, and set and achieve objectives" Capacity cannot merely be built by adding components of hardware, people, or knowledge. Capacity in this sense is latent in people, institutions and societies, and hence can be unleashed if the proper incentives are found for these elements to function well²¹.

Three essential characteristics of capacity development are identified in the same report. These include:

- The fact that capacity development is both a process and goal of development in the long run;
- That developing capacities go hand in hand with political leadership that is empowering and provides space to both state and non state actors to unleash their potentials and
- That local capacities always exist, however weakened they may be even in situations of conflicts, and that these should be the starting point for capacity development work

There are several layers of capacity building needs in relation to the development of human resources:

- Capacity to plan at each MDA in the medium and long term
- Capacity to plan, utilise and control the budget through the MTEF
- Capacity to formulate, implement, monitor, report and evaluate programmes and projects
- Capacity to procure programme and project inputs whether directly or through contracted parties
- Then at the level of all ministries, there is the issue of capacity in organisation of the coordinating frameworks and effective participation, for instance in the use of PER and MTEF in the budget process

²¹ Wangwe (2006)

One advantage of GBS over other aid modalities is that it draws more effectively on government's existing budgeting and planning capacities and can have the effect of strengthening those capacities as a result. Traditional aid practices in Tanzania have undermined the government's capacity to govern well. In the opinion of one observer²², the stand-alone donor-led project approach to development undermines local capacities, and the chances of achieving sustainable development. It does so in the following ways²³:

- Donor projects and project/programme implementation units frequently create parallel structures and even actively poach the best and most talented staff from government Ministries.
- A raft of small, stand-alone projects implemented by different donors with different ways of working, different administrative, financial and reporting procedures, with a series of monitoring meetings, result in a massive and wasteful workload for developing country governments, with already weak and fragile institutional capacity. Today in Tanzania, the health sector alone has more than 100 projects of less than \$1 million each.
- The end result is that governments do not have the time or the capacity to run the country, and the policies, programmes and budgets required for development and the achievement of the MDGs, let alone be accountable to their own citizens. To arrest the phenomenon of "mission overload", Tanzania asked donors to allow a two months mission-free relief (quiet time), especially during the intense budget preparation period.

Donors have sometimes cited lack of capacity as the reason behind their hesitation to channel all their funds through Tanzania's budget system²⁴. Increasing ownership, harmonisation and alignment as well as the appearance of new aid modalities such as GBS, have enhanced the importance of effective institutions and regulations to manage aid. Thus staff managing the aid must be sufficiently competent to meet the new requirements and expectations. This aspect has also been ardently underlined by the IMG and the JAST.

The Tanzanian government remains committed to focus on attracting and retaining better qualified staff and strengthening human resource capacity. This will be achieved through the Government's long-term plan of capacity building as well as pay reform which is performance oriented. The Government also recognises that staff compensation in the public sector does not match with the levels offered in the market. In this regard, the Government is making deliberate efforts to adjust salaries to levels relatively comparable with market rates. The government is also committed to ensure the following in the medium-term:

- Continuing with efforts to integrate Planning and Budgeting process (PMS – Poverty Monitoring System & MTEF) as well as Monitoring, Evaluation and Reporting Mechanism;
- Embedding the Accountability Framework through the Open Performance Review Appraisal System.
- Strengthening the Public Service Wage Commission Board to spearhead the pace of pay reform; and
- Strengthening the role of MDAs in Human Resource Management, including Budgeting for Personal Emoluments (PE);

A number of other challenges have surfaced with respect to capacity development relevant to GBS effectiveness in Tanzania. The following are outstanding:

Due to capacity constraints both on the side of partner countries and donors, procedural issues sometimes tend to prevail over policy issues at the expense of the depth of the dialogue including dialogue on GBS issues. Effective aid management is premised on an enhanced quality of dialogue, and engaging in relevant policy issues in adequate depth requires substantial investment in analytic work, continuous engagement, and adequate skills by donors and government senior policy-makers. It also suggests a clear division of

²² Herfkens (2006:2-3)

²³ Ibid

²⁴ Mutalemwa and Mbilingi (2007)

labour (or burden sharing) among donors in line with their comparative advantage and sectoral expertise. Efforts for capacity strengthening and better understanding of the complexities of budget support as an aid modality may also be more effective when they include parliamentarians, councillors, politicians, and non-state actors so as to enhance demand for accountability. Strong communication on aid and GBS effectiveness is key, therefore, to ensuring that political commitments on both donors and the government are sustained, in particular as difficult choices lie ahead on managing risks in the use of country systems, untying aid and attracting new development partners to the table.

GBS is an aid modality which values significantly results-based management, in that the disbursement of funds is determined by results/performance under various reform programmes. The vicious/virtuous circle is that management for development results (MfDRs) depends a lot on having adequate and predictable aid resources including GBS that strengthen capacity. But capacity is a pre-requisite for achieving MfDRs. Though the overall low level of predictability of aid resources including GBS funds has of late been reported to be improving in Tanzania, a concern persists that unpredictable financing could continue to reduce the impact of capacity development initiatives²⁵. Results/performance is normally measured against outcome indicators such as under PAF instrument. However, there seems to be gaps in terms of statistical capacities to collect and analyse the fundamental data for the PAF instrument. Without an adequate infrastructure to measure the results/performance, an effective results-based management will not be realised²⁶.

Poverty

The principle behind GBS in Tanzania is that the funds are used to tackle poverty and boost growth. Both MKUKUTA and JAST have set poverty reduction as their cardinal goals plus economic growth. Interestingly, the GBS Annual Review 2008 focused on poverty and included growth achievement indicators, based on the results of the recently published Household Budget Survey (HBS) for 2007.

It is clear that economic growth is a fundamental prerequisite for fighting poverty and achieving development results. According to the newly released HBS²⁷, Tanzania is lagging behind in meeting key MDGs commitments even though the East African nation has benefited from a growing economy over the last few years. Between 2002 and 2006, real economic growth averaged 6% compared to less than 4% in the early 1990s. This growth was driven by public and private investments and government consumption.²⁸

Poverty in Tanzania continues to be rife because progress in spreading Tanzania's economic benefits has been uneven and many of the poorest citizens have seen little or no improvements in their quality of life. Worst off are rural areas that are often cut off from services and other types of support. The findings of the recent HBS 2007 call in question the effectiveness of government policies to fight poverty and the international aid behind it.

HBS 2007 showed mixed results in terms of poverty reduction with 33.3 percent of the population living below the basic needs poverty line in 2007 compared with 35.7 percent in 2000/01. While relative poverty is likely to have been reduced by 2.4 percentage points, absolute poverty has risen, leaving one more million people in Tanzania living below the basic needs poverty line.

²⁵ Wangwe (2006:4)

²⁶ The Ministry of Foreign Affairs of Japan (2006)

²⁷ National Bureau of Statistics (2007)

²⁸ United Republic of Tanzania (2008c:4)

The same survey also showed mixed results on how public expenditures have reached poor people. The proportion of children in school has increased, even though challenges remain in particular in ensuring that all children go to school and start at the compulsory age of 7. Access to utilities such as electricity and protected water sources are unchanged or even declining. However, the country's capital city Dar-es-Salaam saw a large drop in access to piped water from 85.5% in 2000/01 to 61.5% in 2007. Very little change was seen in the utilisation of health care. The same survey also reveals limited progress in other dimensions (income, household consumption, nutrition, value of durables and assets), regressions in others (ownership in productive assets) and progress in yet others (ownership of consumer durables, drop in food share).

HBS 2007 revealed that the agriculture, hunting and forestry industry employs more people than any other sector in Tanzania, where 82% of rural households and 38% of other urban households are employed. The agriculture sector has had a limited impact on reducing poverty most of which resides in the rural areas. Poverty in the rural areas reduced by a mere 3.4 % in the 17 years between 1991 and 2007. As a result, 37.4 % of people in the rural areas in the Mainland still live in poverty compared to a national average of 33.3%. A robust agricultural sector has an enormous potential to raise farm incomes and generate decent and equitable employment

According to a report circulated at the 2008 GBS annual review, public spending in the agricultural sector has remain relatively low over the past years at just over 1% of the GDP. The approved budget for agriculture in 2008/09 as a share of total government budget is estimated at 3.96%, lower than the 4.17% in 2007/08. However, government will provide 34.7% of the sector development budget during 2008/09 compared to 10% in 2007/08. Significant and sustained increases in budget allocation are needed to cover the 7 year Agricultural Sector Development Strategy which is currently under committed.

It can be argued that aid fatigue, fiscal pressures in donor countries as well as the recent global financial crisis can make it more difficult to attract growing GBS funds while rising food and fuel prices and climate changes can threaten the advances against poverty that countries have made. In such an environment, Tanzania has no recourse but to persevere in improving a conducive environment for foreign and domestic private investment and to stay on course in utilising well the already lined-up assistance from the DPs..

It is important to mention here that poverty eradication remains the main focus of public policies in Tanzania. Government and its budget support partners agree that the strategic allocation of the national budget is essential in order to promote stronger and more inclusive economic growth. Nonetheless, there are challenges of improving governance and the provision of public service and their focus on the poor as alluded in earlier sections. The Tanzanian government lacks the competence to manage an essentially market-dominated economy. If they are to reap the benefits of a market-oriented growth, poor people require the ability to participate in markets. Thus the government has special responsibilities in ensuring the provision of education and health to poor people. Beyond this, government can help protect them from insecurity: the fear of falling into poverty, or deeper into poverty, inhibits people from taking the risks inherent in market participation. And further beyond this, poor people need to be empowered to participate politically, so that public action gets shaped by their priorities.

Final Remarks and Conclusions

The main lessons that can be drawn from the experiences of the 1990s and at the beginning of the twenty first century is that the participation of both state and non-state actors is both more important and more complex than was previously appreciated for the GBS modality to contribute effectively to development and poverty reduction goals. It is hard to design effective institutions with the right incentives: for example in both developed and developing economies there are intense debates about how to organise public services that deliver. Even when countries believe they know how to deliver services (to the poor), it is often a challenge to build a (political) coalition and dialogue in support of change!

While GBS isn't perfect, the current paper has derived the following important lessons:

- GBS is an excellent vehicle to strengthen government policy and implementation capacities effectively required to reach the MDGs and when the government is implementing a poverty reduction strategy that its aid partners broadly support. To this end, the government must be able to maintain economic discipline and control public expenditures.
- Relationships between a recipient government and its donors under GBS must be based on the assumption that both parties appoint the best people to represent them, reciprocate trust and confidence in one another. The latter two are often only achieved as the two sides interact over an appropriate time and demonstrate 'good faith'.
- The capacity to develop policies and procedures for aid and GBS management is a key constraint on mutual accountability. Capacity must be political as well as technical i.e. the capacity to design and negotiate policy, not just manage aid flows.
- The GBS modality needs to be structured by a clear and credible framework led by recipient government. Credibility comes from a long-term vision for national development, clearly articulated priorities translated into budgets, and defined rules of engagement for the aid relationship.
- Should the volume of GBS rise, other aid modalities will still continue to play important roles as well within the donors' cooperation portfolios. By strengthening public finance management systems and accountability, GBS benefits all modalities using those systems and encourages their better use. Tanzania's choice for GBS as the most preferred aid modality is rational and consistent with her historically strong government leadership. But it demands equally strong PFM systems and accountability performance.
- A better understanding and recognition of the roles of civil societies as development actors and as part of the aid architecture and their engagement in discussion of GBS funds and other aid modalities' effectiveness needs attention. Parliamentarians, the private sector, research institutions and other actors, also have a crucial role to play in the implementation of national objectives and priorities.

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