

Annual Review 2006 of General Budget Support in Tanzania: Learning Assessment

Final Report

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Report to the Government of Tanzania and
The Development Partners' Group by

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Acronyms

AR	Annual Review
CSO	Civil Society Organisation
DAC	Development Assistance Committee (of the OECD)
DP	Development Partner
EC	European Commission
ESRF	Economic and Social Research Foundation, Dar es Salaam
FDI	Foreign Direct Investment
FY	Fiscal Year (1st July – 30th June; FY 2006 = 2005/06)
GBS	General Budget Support
GDP	Gross Domestic Product
GoT	Government of Tanzania
HOAP	Harmonisation of Overseas Audit Procedures
IMF	International Monetary Fund
IMG	Independent Monitoring Group
JAST	Joint Assistance Strategy for Tanzania
KfW	Kreditanstalt fuer Wiederaufbau
LA	Learning Assessment
LGA	Local Government Authority
MAIR	MKUKUTA Annual Implementation Report
MDAs	Ministries, Departments and Agencies
MDGs	Millennium Development Goals
MKUKUTA	Mpango wa Kukuza Uchumi na Kuondoa Umasikini Tanzania (National Strategy for Growth and the Reduction of Poverty, NSGRP)
MoF	Ministry of Finance
MP	Member of Parliament
MPEE	Ministry of Planning, Economy and Empowerment
MTEF	Medium-Term Expenditure Framework
NAO	National Audit Office
NGO	Non-Governmental Organisation
NSGRP	National Strategy for Growth and the Reduction of Poverty (MKUKUTA)
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PAC	Public Accounts Committee
PAF	Performance Assessment Framework
PER	Public Expenditure Review
PFM	Partnership Framework Memorandum
PFMRP	Public Finance Management Reform Programme
PRBS	Poverty Reduction Budget Support
PRGF	Poverty Reduction and Growth Facility (IMF)
PRS	Poverty Reduction Strategy
PS	Permanent Secretary
PSI	Policy Support Instrument
SC	Swiss Cooperation SDC/SECO
SDC	Swiss Agency for Development and Cooperation
SECO	State Secretariat for Economic Affairs
SPA	Strategic Partnership with Africa
TA	Technical Assistance
TANESCO	Tanzania Electric Supply Company
TAS	Tanzania Assistance Strategy
TWG	Thematic Working Group

Executive Summary

Mandated jointly by the Government of Tanzania (GoT) and Development Partners (DPs) committed to General Budget Support (GBS), the learning assessment (LA) of the Annual Review (AR) 2006 process pursued the **overall objective** of developing practical recommendations on ways to strengthen the effectiveness and efficiency of GBS-supported programme implementation. The recommendations are based on experience in general and the 2006 AR process in particular. The quality of dialogue, performance and accountability was to be specifically assessed. Methodologically, the LA made use of good practices developed elsewhere, observations of AR sessions, interviews, and written feedback.

Box 1: Feedback from participants

There was wide agreement on the **strong points** of the TWG plenaries and the AR 2006: discussions were a key element and they took place in an open, transparent and honest atmosphere. They were enriched by good presentations as well as positive contributions from the participants. Furthermore, the level of attendance by the GoT in the AR week was also mentioned several times as a positive feature. A last point, which was brought up positively by several people, was the organisational set-up.

Two aspects were frequently mentioned as **weaknesses**: the unbalanced representation of line ministries, decentralised state levels, and actors from civil society; and the delayed and limited process of inviting domestic stakeholders. Consequently, these two points were also frequently mentioned as areas in need of improvement. Quite a number of diverse suggestions for improvement were made, some of which were taken up in the LA.

Source: 28 feedback forms were received from participants representing: 13 GoT, 11 DPs, 3 CSOs, 1 research institution.

The **AR 2006** was a test case for the new Partnership Framework Memorandum (PFM) machinery that had been put in place in January 2006. Overall, the review was perceived as an overwhelmingly positive experience. It drew on the benefits and virtues of GBS as an aid modality by focusing on a limited number of key issues. GBS is concerned with more than the number of sectors: it is about cross-cutting, core reform issues. There is considerable common ground between GoT and DPs, in terms of content and procedures. The Ministry of Finance (MoF) provided committed and professional leadership of the AR 2006 while GoT presence was weaker during the preparation process. This leadership included innovative steps, such as the inclusion of domestic stakeholders and reaching out to the media.

Approach: DPs have achieved a high degree of like-mindedness in policy orientation that may even go beyond aid modality harmonisation. Harmonising aid modalities does not imply speaking with one voice on all matters. Policy pluralism is an asset. The transparent engagement in argument is supposed to be an engine of social change. An approach that values alternative policy options does not prevent the GoT from choosing coherent policies; rather it offers better informed choices.

- The principles of **policy pluralism** should also govern the policy dialogue between the GoT and DPs. The dialogue becomes more mature if divergent views on important issues are made transparent and give the GoT a better choice and ownership.
- Pre-review meetings and the AR create a heavy **schedule of meetings**. In order to get more flexibility and preparation time in future events, it is suggested that (1) the pre-reviews are spread over a period of two or three weeks; (2) there is at least one week between pre-reviews and the AR; (3) MoF and other MDAs reduce other meetings during that period so as to ensure a good GoT participation.

Dialogue: The GoT was very well prepared and represented in the AR week, whereas during the pre-review week GoT technical level presence was varied. Domestic stakeholders par-

anticipated on a pilot basis. The GBS process builds on, and strongly links to, sector involvement and other underlying processes. Based on the AR 2006 experience and the strengthened GoT leadership, it is suggested that the structure of dialogue within GBS be developed further and consideration be given to:

- **Broadening the scope of stakeholder participation**, including selected Local Government Authority (LGAs), CSOs, private sector representatives and members of parliament (MPs);
- **Maintaining a regular dialogue of TWGs throughout the year**, with the frequency depending on the quality and results of the underlying processes;
- **Extending the alignment of the GBS AR-related processes** to domestic processes by:
 - a) Merging TWG4, TWG5 and TWG6 into a new TWG4;
 - b) Merging the new TWG4 with the Working Group on the Public Expenditure Review (PER) into one vehicle (“newPER”) including non-state actors; and
 - c) Shifting the annual newPER meeting to September.
- **Strengthening sector linkages** by analysis and action from GoT’s and DPs’ side.

Performance: GBS is a contractual relationship offering a package of support (funding, dialogue, TA, harmonisation and alignment of procedures) based on an agreement regarding performance. The Tanzanian Performance Assessment Framework (PAF) matrix consists of a useful basic structure of underlying processes, temporary process actions, and outcome indicators. However, its size and the unclear implications of its elements constitute a risk. Improvements can be sought in three ways:

- Transparency on persisting **bilateral rules governing disbursements** should be achieved and an inventory of bilateral conditions beyond the PAF established;
- In order to reduce risks, it is proposed to clarify the relevance and **implications of the PAF** matrix for DP decision making;
- The **International Monetary Fund’s (IMF) role** and its Policy Support Instrument (PSI) should be revisited, securing flexibility in access to GBS funding, avoiding duplication in the dialogue on macroeconomic issues and opening up to domestic stakeholders.

Accountability is understood as the obligation of power holders to account, or take responsibility, for their actions. In addition to the domestic accountability of the GoT and the DPs, partnership with the GBS introduces a mutual accountability of the partners:

- In order to make reporting to DPs an integral part of domestic accountability processes, it is suggested that the “Economic Survey” and the MKUKUTA Annual Implementation Report (MAIR) be merged into a unique vehicle, “**MKUKUTA Economic and Social Survey**”, which will report on economic/social progress to parliament in June, prior to the budget. The latest version of the PAF could be added for information as an annex.
- In the spirit of mutual accountability, a **DPs’ PAF** should be developed. The same monitoring approach to the DPs’ obligations in relation to the PFM can be used as that agreed upon for monitoring GoT obligations. A DPs’ PAF serves as a monitoring tool and stimulates progress on objectives agreed in the PFM.
- DPs should continue and intensify demand-driven **capacity building** of CSOs and media, and the research capacity of parliament.

Sustainability: Tanzania pursues “Vision 2025” as a long-term goal; the Millennium Development Goals (MDGs) have a time frame of 2015, while MKUKUTA is geared to 2010. The volume and the sustainability of Tanzania’s development efforts and DPs’ support is, within any of these projections, a major issue. Mobilisation of own resources is the best remedy against aid dependency. Taxation not only provides revenue but also strengthens domestic accountability.

1 Introduction

1.1 Mandate and methodology

The Government of Tanzania (GoT) and the Development Partners (DPs) committed to General Budget Support (GBS) jointly mandated a team of independent consultants to perform a learning assessment (LA) of the Annual Review (AR) 2006 process of GBS. The **overall objective** of the LA was to develop practical recommendations on ways to strengthen the effectiveness and efficiency of GBS- supported programme implementation. Recommendations were to be based on experience in general and the 2006 AR process in particular. The quality of dialogue, performance and accountability was to be specifically assessed.

A number of **framing factors**, largely based on the Mozambican experience, to make the LA a success were observed:

- The team was jointly mandated by the GoT and the DPs;
- The team had an independent status and was therefore free in formulating recommendations within its mandate;
- The team had access to all meetings of the AR 2006 and received all relevant internal and external documentation;
- The final learning assessment report as an output of the exercise is in the public domain and freely available;
- The team consists of an experienced international expert and a national expert familiar with the local context.

The LA **methodology** made use of the following instruments:

- Building on good practices¹ in GBS, as developed in the (Development Assistance Committee) DAC, Strategic Partnership with Africa (SPA), and certain other countries;
- Analysis of the available internal and external documents and Tanzania-related studies, including the SPA Budget Support Survey and the Joint Evaluation of GBS in Tanzania 1995 – 20 04;
- Observation of working sessions of the pre-review Thematic Working Group (TWG) plenaries (10 – 13 October 2006) and the AR 2006 meetings (16 – 20 October 2006) to examine the form and effectiveness of the dialogue taking place between GoT and DPs;
- A series of (28) semi-structured interviews (28)² with representatives of government institutions and DP agencies participating in the AR process, and a number of complementary interviews (7) with both participating agencies and other stakeholders (NGOs, parliament, non-GBS donors) in the GBS programme.
- A considerable number of the attendants (28) at the pre-review TWGs and the AR gave written feedback on a form that had been distributed to all participants.

The GoT and the DPs mandated the following **LA team**:

- Richard Gerster (Switzerland), PhD. Econ., Director of Gerster Consulting (www.gersterconsulting.ch), teamleader;

¹ See the bibliography in Annex 3.

² See list of interviews in Annex 2.

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1.2 GBS setting in Tanzania

Government–donor relationships in Tanzania underwent profound changes during the last decade. In 1994, a group of independent advisors led by Gerald K. Helleiner assessed the relations between the GoT and international DPs. A similar evaluation was repeated by Gerald K. Helleiner in 1997, 1999 and 2000, before the exercise became institutionalised under an Independent Monitoring Group (IMG) in 2002. In order to enhance aid effectiveness, the GoT devised the Tanzania Assistance Strategy (TAS) in 2002. Since 2004, the GoT has led a process to develop a Joint Assistance Strategy for Tanzania (JAST) as a new framework for managing development co-operation. The JAST is being implemented since July 2006. Tanzania's first poverty reduction strategy (PRS) was drawn up as a consequence of receiving debt relief. DPs have welcomed related reforms, and a growing number of them have started to provide programme support at both the sector level and the level of the general budget, thereby transforming the aid relationship. After a broad consultative process, the GoT shaped the National Strategy for Growth and Reduction of Poverty (NSGRP, known as MKUKUTA in Swahili) as a second generation PRS in 2005. Most DPs now put their support firmly behind MKUKUTA.

After making discretionary external contributions over many years and in various ways, in 2001 nine DPs started to provide **GBS** to contribute to the implementation of the PRS. As the definitions of actions and targets presented in the PRS were considered too general and imprecise to provide a basis for monitoring progress, a Performance Assessment Framework (PAF) was developed, laying out a series of agreed "aims" and "actions" to be undertaken over the period 2001 – 2004. In 2004, an independent evaluation of the GBS took place, being a precursor to the more comprehensive DAC GBS evaluation in seven other countries. A major revision of the Partnership Framework for GBS, based on the results and the experience, started in 2005.

Box 2: The DAC Guiding Principles on GBS³

The DAC of the OECD identifies four guiding principles for the provision of GBS:

- Budget support should reinforce partner countries' ownership;
- Budget support should help to enhance the performance and accountability of partner countries' PFM systems;
- Transaction costs incurred by budget support should be minimised;
- Budget support should be delivered in a way that enhances the predictability of resources and reduces their volatility.

³ DAC 2005, p. 12 – 13.

On January 1, 2006, a new **Partnership Framework Memorandum** (PFM) governing GBS for the implementation of MKUKUTA came into force, signed by the GoT and 14 donors⁴. Annex 1 lists facts and figures of the present GBS arrangements. The PFM introduced a number of innovations into the relationship between GoT and GBS partners. These covered the underlying principles of the partnership, a revised Performance Assessment Framework (PAF)⁵ to monitor the progress of MKUKUTA implementation and the responsibilities of the GBS partners, in the spirit of the Paris Declaration on Aid Effectiveness. A new requirement in the PFM is a yearly report on GBS Partner performance in relation to their commitments. These PFM innovations pose challenges, both in terms of managing the change process and in ensuring that the approaches used are keeping up with good practice that has developed elsewhere, in particular in the DAC of the OECD and the SPA.

2 Approach

2.1 Issues and good practices

The **core principles** governing the way GBS is delivered to the GoT and how the DPs organise themselves are laid down in the PFM, which covers the period 2006 – 2010. Among other elements, monitoring, evaluation, reporting, disbursement, and auditing are dealt with in some detail. Appendix III describes the AR process to be followed by the signatories. The PFM is not a legally binding agreement; nor does it constitute an international treaty creating rights and obligations under international law⁶. Bilateral arrangements have precedence over this PFM. Despite this formal weakness, the institutional machinery of GBS has developed a remarkable strength, mainly derived from the volume of finance involved and peer pressure.

In terms of **good practices**, other experiences provide the following lessons that are relevant in this context:

- Joint processes should preserve the space for different but transparent decisions, in the same way as harmonisation is different from unanimity.⁷
- The key requirement of a predictable approach in GBS flows is that the AR should be timed to take place nine months before the start of the Financial Year (FY), with disbursement decisions resulting from the AR being confirmed at headquarters' level six months before the start of the FY.⁸
- Basing future allocation and policy decisions on results is more than a technical question of how to produce timely, high quality data. It is a new paradigm that requires a fundamental shift of institutional culture and considerable time for change.⁹

⁴ African Development Bank, Canada, Denmark, EC, Finland, Ireland, Japan, Germany/KfW, Netherlands, Norway, Sweden, Switzerland, United Kingdom, World Bank.

⁵ Although the PAF was not attached to the final and signed PFM. The PAF was removed as a formal attachment just before the signing ceremony.

⁶ Art. 1 PFM.

⁷ DAC 2005, p. 18.

⁸ Lawson/Gerster/Hoole 2005, p. 7.

⁹ This represents a well established experience from OECD as well as other GBS countries.

Box 3: Voices¹⁰ on approach

- GoT: “The AR is an effective, collective, focused and transparent process, easy to handle in a friendly way, much better and more productive than many reviews in projects.”
- GoT: “DPs enforce the experience of their home countries in Tanzania irrespective of the fact that Tanzania and DPs’ countries are at different stages of development – e.g. the issue of subsidising TANESCO.”
- NGO: “GoT leadership has greatly improved at central level, and in relation to the JAST process. At local level there is an entirely different story. Discretionary funds are crucial for ownership and leadership. Without GBS the reform process would not have taken place at this pace.”
- DP: “Focussing on key issues made it possible for both sides to be well prepared. The openness and quality of discussion was impressive.”

2.2 Observations

The AR 2006 was a **test case for the new PFM machinery** that had been put in place in January 2006. The review was generally seen as an overwhelmingly positive experience (see Box 1). A strong ownership and leadership could be noted on the Tanzanian side, counterbalancing a heavy donor presence and frequent interventions. An AR involving numerous Ministries, Departments and Agencies (MDAs) of the GoT, other domestic stakeholders and 14 DPs is a complex undertaking. Its smooth organisation requires clear guidelines being given well in advance. The preparations included guidance for the TWGs, including a prescribed format for the PAF reporting and for the selection of five key issues. While the new and advanced standards achieved were widely recognised, shifting time lines and a lack of clarity in providing TWG reports were mentioned as weaknesses.

The AR 2006 drew on the benefits and virtues of GBS as an aid modality by focusing on a limited number of **key issues**. GBS is concerned with more than the number of sectors: it is about cross-cutting, core reform issues. The key issues chosen were domestic accountability, planning and budgeting (including (1) dialogue and functioning of the Public Expenditure Review; (2) external resource allocation, predictability and commitments in the Medium-Term Expenditure Framework (MTEF); (3) inadequate financial resources), local government, sustainability of the wage bill and human resources, and energy and infrastructure. There was a transparent and well-balanced process to select these key issues for further discussion, based on proposals from both sides. The formal performance assessment was mainly done during the pre-review sessions; the dialogue on these key issues built upon this, resulting in an agreed way forward.

There is considerable **common ground** between GoT and DPs, in terms of content (identification and analysis of key issues) and procedures. There is a cooperative and constructive spirit between key staff of the GoT and DPs that facilitates practical solutions and consensus. Tanzania’s discussion culture is consensual. This non-confrontational approach is evident in all meetings. It may not, therefore, be easy to

¹⁰ These voices do not claim to speak on behalf of the indicated segments of society. They speak in their personal capacity. They are quoted here to give an impression of the range of opinions.

find productive ways of voicing dissenting views. The discussion and dialogue process during AR was well-managed on both sides. While recognising the merits of the pre-review, a number of Tanzanians felt crowded out by so many foreigners who are used to being vocal, while Tanzanian culture says, “listen first”.

The Ministry of Finance (MoF) provided committed and professional **leadership** of the AR 2006 process. This leadership did not only facilitate navigation of the core process in sometimes shallow waters but included innovative steps. It was on the MoF initiative, agreed with DPs, that **other domestic** stakeholders (civil society organisations, private sector) were invited to the pre-review TWG sessions and selectively during the AR. Another initiative was reaching out to the media and informing them actively on the GBS aid modality. The considerable media coverage confirmed that there is public interest in GBS and the AR.

As agreed in the PFM, the **MKUKUTA** is the foundation of the GoT–DP partnership. DPs insisted on receiving a status report of the MKUKUTA before the AR 2006. The PFM obliges the GoT to provide the “MKUKUTA Annual Review Reports of the previous financial year prior to the GBS Annual Review”¹¹. At very short notice, the day before the pre-review process started, the MKUKUTA Annual Implementation Report (MAIR) was released by the GoT in draft form. Though informally praised as being a substantial document, none of the stakeholders ever referred to it during the pre-review and the AR weeks. This moderate interest contrasts with the widespread dissatisfaction (50%) expressed by the DPs in the SPA Survey 2006 based on the previous Annual Progress Reports (the latest of 2004). Even taking into account that the Draft Progress Report was released very close to the AR only, this non-reaction merits an exchange of views.

2.3 Recommendations

Tanzania is a multi-party democracy and intends to strengthen that system. Inherent in such a system is political **pluralism**, which is an asset. Transparent engagement in argument is supposed to be an engine of social change. The same principles should also govern the policy dialogue between the GoT and DPs. DPs have achieved a high degree of like-mindedness in policy orientation that may even go beyond aid modality harmonisation. Harmonisation regarding aid modalities does not imply speaking with one voice on all matters. The dialogue becomes more mature if divergent views on important issues are made transparent. Often the differences may have been known anyway and they give the GoT a better choice and ownership. On the other hand, DPs may be interested in dissenting views within the GoT. Such an approach that values alternative policy options does not prevent the GoT from choosing coherent policies; it rather offers better informed choices.

Pre-review meetings and the AR in the present form create a heavy **schedule of meetings** within a short period of time. The pre-review week of the AR 2006 was meant to give up-dates of the TWG work which has taken place over several weeks before. In order to get more flexibility and preparation time in future events, it is suggested that

- the pre-reviews are spread over a period of two or three weeks;

¹¹ Art. 17 (ii) PFM

- there is at least one week between pre-reviews and the AR;
- MoF and other MDAs reduce other meetings during the period in question so as to ensure a good GoT participation;
- the linkages between the pre-review sessions and the AR are strengthened by devoting one session in the AR week to look at areas of concern in terms of meeting and missing PAF targets.

3 Dialogue

3.1 Issues and good practices

Dialogue between GoT and GBS partners is regarded as a very important element in the implementation of the PFM. Both the Government and GBS Partners understand that “regular, open, respectful, and frank dialogue is essential to the smooth and effective operation of GBS”¹². Both parties are expected to agree on a calendar of meetings to discuss issues arising from the PFM or related to the management of the GBS mechanism.

Dialogue was identified as one of the issues to be examined for this LA in view of the efficiency and effectiveness of the GBS support to MKUKUTA implementation. The LA-team was expected to assess the **quality and breadth** of dialogue taking place between the GoT and GBS partners, both during the AR 2006 and in other fora, in terms of (1) levels and range of participation, including the role of sector ministries and non-GBS donors, (2) effectiveness of dialogue (policy debate or exchange of information, cross-cutting issues, information flows), (3) linking sector reviews and the GBS processes.

In terms of **good practices**, other experiences provide the following lessons that are relevant in this context:

- Partner country ownership is essential; weakening, or even substituting for, national efforts should be avoided.¹³
- Issues that are fundamental to the GBS process can be effectively assessed outside of the PAF. “Sub-contracting” underlying processes (macroeconomics to International Monetary Fund (IMF), sectors to sector reviews, etc.) of performance assessment could be an effective way of dealing with the excessive size of the PAFs.¹⁴

Box 4: Voices on dialogue

- GoT: “DPs should have access to all information they need. The GBS dialogue is an investment in making the participants from the DP side ambassadors for Tanzania within their own institution and country.”
- GoT: “We do not have the time for permanent dialogue, we have to deliver!”

¹² Art. 8 PFM.

¹³ DAC 2005, p. 6.

¹⁴ Lawson/Gerster/Hoole 2005, p. 8.

- NGO: “The on-going open dialogue would not happen without GBS. National analysts do not have similar possibilities to discuss their issues with GoT and parliament. National research institutions should be invited to participate in the TWGs. More opportunities for such a substantive input are needed.”
- DP: “GoT ownership means in practice ownership by the Ministry of Finance but not by line ministries or LGAs. Once the sector ministries have the funds there is a disconnection from the GBS system. The MoF cannot give directives to sectors. Sectors are not accountable to the MoF. Strong underlying processes like sector reviews include also decentralised government entities and civil society.”
- Non-GBS DP: “There is a marked improvement of dialogue with all stakeholders, including MDAs, civil society, private sector, donors. Also local authorities should really become involved in the GBS dialogue.”

3.2 Observations

(1) Levels and range of participation

The GoT was extremely well represented in the **AR week**. As a sign of the importance the GoT attached to this event, the Minister of Finance, Hon. Zakia Hamdani Meghji officiated at the launch of the AR 2006. Later on, she chaired the sessions on that day; she also attended the discussion on energy and infrastructure on the fourth day of the review week. Also, the Deputy Minister for Finance, Hon Mustafa Mkulo, participated in the first day deliberations and at least two other sessions including the one on energy and infrastructure. On the first day of the AR, there were 14 Permanent Secretaries (PS) and Deputy Permanent Secretaries of key sectors and line ministries present. The PS had the back-up of their respective Commissioners and Directors, especially those dealing with policy and planning. The presence of PS made it possible to resolve some issues that had not been resolved during the pre-review sessions. The presence of other high-ranking government officials facilitated clarifications of government positions on certain issues. Zanzibar participated in the two-week event, with the Deputy Permanent Secretary of Finance heading the delegation.

During the **pre-review week** GoT presence at the technical level was varied. The sessions were chaired by the Commissioner for Policy Analysis in the MoF. His performance as an extremely well-informed, eloquent and open chair found broad acknowledgment. A number of DPs measure GoT commitment and presence in the policy dialogue in terms of the hierarchical positions of participants. *However, during the pre-review sessions technical knowledge matters as much as formal positions.* The MoF sent a clear message to DPs to understand that unavailability did not signal disinterest but competing obligations of the relatively few key staff. GoT–DP relationships differed significantly between the various TWG clusters:

- (1) Line ministries are largely absent during the year when DPs prepare the review (TWG1);
- (2) Line ministries and DPs arrive at a largely consensual and joint presentation (TWG2, 4 and 6, partly 5);
- (3) Line ministries and DPs prepare the review jointly but do not achieve consensus on all points and so present partly differing perspectives (TWG3, partly TWG5).

A lot of informal and sometimes emotional discussions took place in the **absence of sector ministries** (mainly in TWG1) during some pre-review sessions. Most people

behave in a rational way; they may just follow different rationales. The MDAs and their Directors of Policy and Planning know the GBS process well and what the PAF is but (a) they may have little incentive to comply with it and do not incur any sanction for not doing so; (b) they are given poor central guidance on AR reporting formats; (c) they are aware of major unresolved issues in key questions and deliberately avoid a confrontation at the technical level before the problems have been resolved politically. Both the GoT and DPs need to reflect seriously on this matter and on the lessons of the 2006 AR.

The TWG sessions of the pre-review were opened up to **domestic stakeholders** on a pilot basis in 2006. The MoF invited a number of umbrella NGOs and private sector representatives. This was an important step forward and led to a few but strong civil society voices in the pre-review. NGO leaflets were distributed based on information from the Controller and Auditor General reports on how central and local government manage money.¹⁵ DPs intended that non-state participants should only be given “the opportunity to ask questions but not influence the report”. Despite that intention, the discussion may have influenced the cluster presentation in the AR report. The invitations to domestic stakeholders only arrived the day before the pre-review started and were not appropriately documented. This procedure made a meaningful consultation, which should be based on informed participation, difficult. It is hoped that, in future years, information and documentation will be shared in a timely fashion.

Despite a remarkable **collaborative effort among DPs**, occasionally competing aspirations among agencies could be observed. Obviously tensions between expectations and guidance from headquarters and the requirements of a collective country-led approach persist. Civil society representatives suggested a strengthened division of labour among DPs, to reduce the number of their interventions and permit more space for national voices. More specifically, the IMG recommended¹⁶ that the role of donors should be clarified to permit country leadership and for ownership to take root.

(2) Effectiveness of dialogue

The **quality** of the TWG dialogue during the pre-review week was often ambiguous. Much of it was more of an exchange of information and sharing statements. However, highlights could also be noted as did a DP: “Linking the growth agenda with the roll-out of social services as done in TWG2 is an achievement for Tanzania.” The dialogue on selected key issues during the AR week had a different quality, with genuine policy debates taking place. At the closing session, the GoT and the DPs agreed on which actions to take forward.

The **role of the pre-review TWG sessions** was questioned. The pre-review TWG sessions in the present format were viewed by some participants as not being a compelling element of the process leading up to the AR; from such a perspective the TWG reporting on the PAF and the identification of the key issues could also have been done without having such sessions. However, the participation of domestic stakeholders turns the TWG sessions into open forums of information-sharing and exchange of opinions. The added value of the pre-review TWG sessions comes from providing:

¹⁵ Haki Elimu 2006.

¹⁶ ESRF 2005, p. 30.

- A forum for a debate among knowledgeable people in view of GoT/donor accountability to other stakeholders;
- The opportunity for MDAs to draw the attention of higher authorities to key issues of concern beyond their control;
- The opportunity to “test the temperature” among partners and pave the way for a successful formal AR.

The effectiveness of dialogue also includes the question of **influence and impact by domestic stakeholders**. The third sector in Tanzania is still in its infancy and needs to be more empowered. It may not be efficient for some civil society organisations (CSOs) to spend their time in such meetings in addition to the Public Expenditure Review (PER) and MKUKUTA monitoring. A civil society representative criticised GBS for being gender-blind and therefore, in the Tanzanian context, discriminating against women and children. She came up with a number of other points and the chair asked her to provide a written submission for consideration. Gender concerns are equally shared by the GoT and the DPs as they adopted the MKUKUTA as the basis for GBS where gender aspects are well-anchored. It will be up to civil society to monitor how this intervention is handled.

(3) Linking sector reviews and the GBS processes

The GBS process builds upon and strongly links to **sector involvement** and other underlying processes. Sector and other reviews were used as starting points for the performance assessment against the PAF. As mentioned before, the sector engagement differed widely, however. In a number of cases buy-in by sector staff both on the GoT and the DP side could have been stronger. The MoF and the DPs need actively to address this incentive issue and convincingly demonstrate how MDAs can benefit from the GBS process. A strong and transparent link to the sectors is also meaningful for the donors’ home front, as a DP noted. Despite weaknesses, an excellent start was made in a promising and far-reaching process.

The participation of sector ministries has been perceived as a problem for some time, by both the DPs and the Government. The **sector ministries’ weak involvement** in GBS is at the root of the problem. One of the DPs said that the whole GBS affair is often considered an MoF (and Ministry of Planning, Economy and Empowerment (MPEE)) responsibility: “Other ministries are not sufficiently involved, don’t know what a PAF is, are not aware that they are responsible for achieving certain indicators, etc. As a result they don’t see the need to talk to DPs. They even see this as interference in their internal affairs. An example is the Ministry of Agriculture, where they only want to discuss activities that are directly funded with DP resources and not what is covered by the GoT budget (e.g. subsidies to fertilisers).”

The **health sector** is probably the most advanced in linking with GBS. The TWG pre-review session was seen by the sector as an opportunity to draw the attention of higher authorities to delicate and burning issues beyond their control. This kind of strategic thinking for the preparation is new and very encouraging. It is essential for the sectors that they see the added value of the GBS process for their own concerns. Whereas in health many DPs are active, in education a crisis provoked the exit of some donors, which was said to have opened up new space for the GoT. The completion of the education sector review was considered a very encouraging step. The

GBS process should not just place another reporting burden on sectors but also add new opportunities.

Major efforts by the GoT and the DPs have been associated with the **PER** process and its recognised achievements. Being open to both domestic stakeholders and DPs, the PER process provides an excellent forum for public debate on budget issues. An international comparison of Tanzania's budget openness "indicates that the government provides citizens with some information on the central government's budget and financial activities, but that there is much room for improvement."¹⁷ A NGO mentioned that PER influence on the budget is less than people often assume: scheduling it in September instead of June would make the event more influential. Repeated duplication of efforts between the PER and TWGs were noted and merging of work streams was suggested. DPs were said to be more involved in the PER than the parliament; the PER should be more strongly linked to legislative power.

NGOs advocated more space for policy debate among domestic stakeholders. The question was raised whether an improved **division of labour among DPs** would lead to a reduction of their participation and the number of their interventions. The division of labour among DPs has already been mentioned by the IMG¹⁸ and is being outlined in the framework of the Joint Assistance Strategy for Tanzania (JAST).

3.3 Recommendations

In view of the excellent experience of the AR 2006 and the strengthened GoT leadership, it is recommended that the **dialogical function** of GBS be developed further, taking the considerations by the IMG¹⁹ into account to streamline the dialogue process and to increase the participation of broader constituencies. The following key elements merit consideration:

- (1) Stakeholder participation;
- (2) Regular dialogue;
- (3) Structural alignment;
- (4) Sector links.

(1) **Stakeholder participation.** Since the debate with stakeholders is emerging as the main and common role of the TWG pre-review sessions, these should be prepared next year in a more enhanced way by:

- Broadening the range of organisations to be invited, including selected local governments, CSOs, private sector representatives and members of parliament (MPs);
- Sending the invitations sufficiently early (two weeks in advance), with the option of registration;
- Providing to those having registered the basic documents at least five days ahead of the session.

The idea is not simply to maximise the number of participants but to open the forum to those who are working in one way or another on common issues and have a professional interest in the dialogue. An important and widely-shared concern is an ap-

¹⁷ International Budget project 2006, country summary Tanzania. Detailed proposals for improvement can be found in Policy Forum 2006.

¹⁸ ESRF 2005, p. 30.

¹⁹ ESRF 2005, p. 31 – 39.

appropriate representation of the LGAs, municipalities, and districts to enrich the debate with a reality check. Two options were mentioned in the interviews: (1) Same dialogue process at District Council level, including central government and DP representations; (2) Selective local government representatives to be included in the (pre-)review process, as they participate in the PER.

(2) **Regular dialogue.** TWGs are supposed to be working throughout the year, with the frequency depending on the quality and results of the underlying processes. There was agreement that the primary work programme of TWGs is to follow up the issues defined at the AR and to provide inputs into the next AR. Previously there has not been a follow-up and/or monitoring after the AR. It may be useful to clarify the role and added value of clusters in order to arrive at tailor-made work programmes for the TWGs throughout the year. Opening up the TWG pre-review forum raises the question whether the TWGs should be enriched by competent experts throughout the year. There is no reason why the TWGs should not be open on a permanent basis. The PER has positive experience of this. External participants also expect results out of their participation and a continuous cooperation would be more meaningful.

(3) **Structural alignment.** An extended alignment of the GBS AR-related processes to domestic processes could be the way forward in using GBS as an instrument to strengthen domestic accountability and to reduce transaction costs. Three steps should be examined:

- a) TWG4 on resource allocation and budget consistency, TWG5 on public financial management, and TWG6 on macroeconomic stability should be merged into one new TWG. The TWG structure could thus be simplified and the revised dialogue structure would consist of the three MKUKUTA clusters plus a new TWG4 on economics.
- b) The new TWG4 should be merged with the main working group on the PER into one vehicle (“newPER”), maintaining the participation of non-state actors.
- c) The annual newPER meeting should be integrated into the pre-review cycle of the AR, most likely in September. Such timing is better aligned to the budget cycle of the forthcoming fiscal year and gives domestic stakeholders a better chance of influencing budget guidelines.

(4) **Sector links.** An analysis regarding unsatisfactory participation of some sector ministries (in TWGs, pre-review sessions and AR) is required, in view of an expansion and extension of MDA participation.

- The MoF may want to consider how to inform other parts of the GoT on the outcome of the AR, including a wide dissemination of the new PAF and an explanation of its significance, and to inform sector ministries very early on in the process that their participation in the forthcoming AR is expected and how they will benefit from it;
- DPs should be much clearer in their dialogues with line ministries about what their interest is when DPs are moving away from programme/project support towards GBS. They should point out that the sooner MDAs get on board, the more prepared they will be for active participation in the budget process and in ensuring enough resources for their sectors in the future.

4 Performance

4.1 Issues and good practices

GBS is a contractual relationship offering a package of support (funding, dialogue, TA, harmonisation and alignment of procedures) based on an agreement of **performance**. As a partnership arrangement, there are agreed obligations on both the GoT and the DPs, laid down in the PFM. One of the key elements is the PAF, against which past performance is jointly assessed and forthcoming performance is projected.

Performance was identified as one of the issues to be examined for this LA in view of the efficiency and effectiveness of the GBS support to MKUKUTA implementation. The LA team was expected to assess **selected aspects** in order to strengthen performance in future:

- (1) Experience with the PAF and perception of the main risks;
- (2) The escalation of transaction costs of delivering assistance and options for reduction;
- (3) The adequacy of GoT's capacity to effectively deliver on commitments.

In terms of **good practices**, other experiences provide the following lessons that are relevant in this context:

- It is possible to manage all GBS effectively through a single, harmonised PAF, with major gains in reduced transaction costs. Streamlining conditionality to avoid an unnecessary expansion in the scope and complexity of the PAF is a major lesson.²⁰
- The PAF should be only one component within a coordinated sequence of processes for performance reviews and policy dialogue to facilitate an overall assessment.²¹
- The role of the IMF in monitoring and advising on macro-economic performance as a basic requirement for GBS should be retained, while avoiding a mechanistic link of GBS funding to the IMF's own conditions.²²

Box 5: Voices on performance

- GoT: "The selection of PAF indicators should represent key drivers of change, and PAF indicator values should be ambitious. Tanzania needs progress now, not only in a decade. However, timing should not be deliberately overambitious."
- GoT: "Things should be looked at holistically. If the Public Financial Management Reform Programme (PFMRP) reporting is not functioning well but overall PFM is progressing, the weakness should be seen in a wider perspective."
- NGO: "The PAF is the only document where accountability is taken seriously. If there were enough trust in MKUKUTA and its monitoring system, no PAF would be needed. The PAF requires consultations with wider stakeholders."
- NGO: "There are no major objections against the PAF from our side, and if its review is as open as we are having it now, this question loses in importance."

²⁰ DAC 2005, p. 14; Lawson/Gerster/Hoole 2005, p. 7.

²¹ Lawson/Gerster/Hoole 2005, p. 8.

²² IDD 2006, p. 106; similarly ESRF 2005, p. 39.

- DP: “The redesigned PAF is a great improvement. The PAF should be understood as one instrument beside others to assess performance. For decisions on disbursement neither reliance on its results only nor on single outcome indicator values provide an adequately broad perspective.”
- Non-GBS DP: “The PAF suffers from missing or weak monitoring and evaluation systems across the GoT ministries. The main challenge for the PAF matrix is to link central and local government while building capacity at the local level.”

4.2 Observations

The PAF matrix consists of a **useful basic structure** of underlying processes, temporary process actions, and outcome indicators. The redesigned PAF was basically welcomed by all partners as being a big step forward. MKUKUTA’s cluster approach is reflected also in the PAF and the GBS dialogue. The tripartite composition of the PAF matrix reflects the proposals by the GoT as well as the different approaches of DPs.²³ It is well known that the World Bank emphasises prior actions of institutional and structural development; the European Commission (EC) strongly favours outcome indicators, and many bilateral agencies prefer a broad view. These different approaches became apparent when the question of a PAF matrix revision was discussed during the AR.

Although the transition from the previous PAF to the present PAF was seen as a big step forward in terms of reduction of PAF elements – underlying processes soaking up lots of previously stand alone PAF measures – the PAF-matrix obviously reflects a compromise among the different players, and. However, the **size of the agreed PAF matrix** remains a source of concern. It lists 22 outcome indicators, 19 temporary process actions, and 26 underlying processes. The GoT performance in terms of all these 57 elements form the basis for the “joint overall assessment”, prepared at the end of the AR, that determines the DPs’ future GBS commitments and disbursements. The vast number of elements determining performance measurement brings the danger of losing the focus on reform in the exercise. It should be remembered that in the SPA Annual Survey 2006 the GoT expressed a preference for a smaller number of conditions and, during the AR, the GoT repeatedly argued for not expanding, but even for reducing, the PAF matrix as real monitoring comes through the MKUKUTA Progress Reports.

Measuring performance against the PAF relies to a large extent on other processes. The **nature of the PAF matrix** elements is often not as precise as it should be. The underlying processes differ very much from one another in terms of outreach and quality. As an essential element of the performance assessment, and in view of common minimum standards, it is important to have an agreed definition of what constitutes a “satisfactory review”. Art. 14 of the PFM defines the significance of a satisfactory sector or programme review. GoT and DPs created a task force to provide more operational guidelines that had not yet been agreed at the time of the AR. Given an agreed definition, a system of quality control for the PAF monitoring process can be established to ensure minimum quality standards. There is no unanimity about whether the column of temporary process actions is of a permanent or a transitional nature. Individual actions may be phased out but new ones may enter the ma-

²³ For an overview on the approaches see Lawson/Gerster/Hoole 2005, pp. 12 – 22.

trix when new problems arise. Temporary process actions may not be as temporary as is thought, because implementation follows the adoption of the action and may need to be monitored. Moreover, not all “outcome indicators” indicate outcomes in the normal sense of the word.

As a result, when the **overall assessment of performance** along PAF lines is done, substantial grey areas remain in terms of the implications. Can a DP object to a single element of an overall satisfactory sector review and delay disbursement?²⁴ On the one hand the assessment of the PAF showed a number of areas with delays, non compliance etc. On the other hand, the joint assessment concluded with a “satisfactory” judgement. The process was not mechanistic by adding up all the scores but rather based on the overall appreciation of a “positive trajectory of change”. This joint view serves as the primary basis for GBS Partners to determine their GBS disbursements and future funding. Such a holistic approach makes the present PAF a working arrangement in good times. The lack of clarity could become a veritable Pandora’s box in times of a deteriorating relationship or even of a genuine crisis. With the fast-growing volume of GBS, the implications of non-disbursement in the case of a crisis become much more severe.

The PFM provides in Art. 16 that “the parties may jointly agree to revise the PAF, in order to accommodate emerging strategic issues of concern”. The parties agreed before the AR 2006 that a minor **adaptation of the PAF** could be done if the need arose. The PAF is supposed to be proposed by GoT on the basis of the agreed guidelines (MKUKUTA monitoring), followed by a negotiation process with DPs. Due to the fundamentally different approaches of individual donors as to how a PAF should look and a corresponding pressure from headquarters to bring the existing PAF in line with the “institutional” culture, any PAF reform discussion entails the danger of undermining the ownership of the GoT. The discussion on the revision of the PAF matrix was clearly driven by institutionally different visions. Medium-sized and smaller donors’ fears of being marginalised in the revision process surfaced in an early debate. GoT leadership and guidance was crucial to arriving at the very practical agreement on how to proceed for the PAF revision and to preventing a situation where such differences among DPs would end up putting an additional burden on the GoT and weakening GoT ownership. In addition to GoT leadership, the DPG needs to harmonise further, “so that they do not ask for a 1000 new issues every time they meet the Government – it should be easier that way than if the government dictated”, as a leading GoT official puts it.

When moving from a system governed by bilateral relations to a common PAF, during a transition period a number of **bilateral performance criteria** may persist. However, given the harmonisation agenda, in the medium term there should be no bilateral disbursement conditions other than the results of the joint GBS Annual Review. In that spirit Art 3 PFM states: “Bilateral arrangements, which will be distributed to all signatories of this PFM, have precedence over this PFM. To the extent permitted by their individual legal and statutory requirements, GBS Partners will not include in their bilateral arrangements any conditions or administrative and reporting requirements additional to those agreed upon in this PFM. Where GBS Partners have existing bilateral arrangements for GBS support, these will be amended in line with this PFM.” For the time being, there is no inventory of bilateral conditions beyond the PAF.

²⁴ This question originates from the non-participation of Haki Elimu in the education sector review but is of general relevance.

GBS being based on a partnership approach is supposed to move from imposed **conditionality** to mutually agreed performance indicators relying on the MKUKUTA monitoring system. The GoT explicitly stated during the AR that they did not consider the term “conditionality” appropriate. When asked to comment on the usefulness of conditionality in the SPA Survey 2006, the GoT replied: “Donor conditionalities for GBS are drawn from the PRS and remind the Government of its existing commitments to implement the PRS”. Such a consensual understanding of performance criteria respecting GoT ownership is of great significance in relation to the international debate on policy space for developing countries.²⁵ Developing countries require policy space to shape their economic policies according to their own national interests instead of following international mainstream. In contrast to many statements, DPs were said to be more nervous this year than at the AR 2005, and the interest in conditionality – also in its traditional meaning – was growing. This changing attitude was not related to the performance of the GoT but was rather due to the changes in the DPs’ home political environment.

It was interesting to note that the **fiduciary risks of GBS** did not dominate the review; though some DPs regretted that audit issues did not receive more attention during the AR. The roles of the Public Procurement Regulatory Authority and of the National Audit Office (NAO) were highlighted in the TWG5-presentation. For the first time, the NAO report for FY 2004/05 was delivered to parliament on time, within nine months of the FY end. Corruption was the subject of a high-level, closed-door session of the AR. An independent international audit by the HOAP-Group (Harmonisation in Overseas Audit Procedures) in 2006 found a number of weaknesses but nevertheless concluded that satisfactory progress has been made with the PFM implementation.

A good performance of GBS in-year **predictability** was noted, in contrast to problems in basket and project funding where actual disbursements accounted for by the Government and captured in the Government Exchequer system are consistently less than budget estimates. NGOs insisted that predictability at the local level is a burning issue in terms of GoT transfers, as well as DP contributions. Medium-term predictability of GBS remains a major concern of the GoT. According to the SPA Survey 2006, 10 of the 14 GBS donors have an agreement in place until 2007/08, and 9 until 2008/09, which is an improvement on the figures found in the Survey 2005, where only 7 had multi-year commitments. The GoT presented a strong case for further improving medium-term predictability in order to strengthen MTEF projections and MTEF credibility. DPs argued for a scenario approach to be taken up in the budget guidelines, working with different levels of DP commitments. Beyond the scenarios, there was no specified and agreed follow-up on predictability, despite this MTEF link. However, DPs acknowledged the demand to increase channelling funds through the exchequer system.

Several interviewees on the GoT side mentioned reduced **transaction costs** of GBS as an aid modality. The opportunity costs for projects are considered to be much higher than the GBS transaction costs. Having said that it was acknowledged by all sides that the transaction costs of the GBS process in general and the AR 2006 in particular were a considerable drain on scarce staff resources. However, there was

²⁵ UNCTAD 2006

agreement that transaction costs should be seen in relation to the output, and transaction costs are (too) high when the relevance is poor. Transaction costs may have increased in 2006 on both sides, but higher quality results have been achieved in return. There has, to some extent, been a shift in the transaction costs of the GBS and AR arrangements from the DP side to the MoF, which is much more active and involved in the job than before. A GoT representative noted: "Ultimately, GBS is based on trust in the overall system – why do individual donors ask for a multitude of additional reports? The more you know, the more you ask questions, and DPs generate additional work by asking for new reports, thus increasing transaction costs. An analysis of the additional work load might be indicated." A DP suggested a careful cost-benefit analysis of the exercise. The main option for lowering transaction costs any further is to turn project aid into basket funding and this again into sector support and/or GBS. This option needs to be seen on the background of aid fragmentation which makes "Tanzanian government officials prepare about 2000 reports of different kinds to donors and receive more than 1000 donor delegations each year"²⁶.

The **IMF** is not a member of the GBS–DP Group but attended the AR 2006 meetings as an observer and is part of the TWG 6 on macroeconomic stability. The macroeconomic assessment by the IMF – done until December 2006 through the Poverty Reduction and Growth Facility (PRGF) – makes an essential contribution to the review system. Yet, the PRGF process remains parallel to the PAF process and the performance criteria are additional to the agreed PAF²⁷. The PAF refers to the "development of and dialogue on implementation of a growth strategy" as an underlying process, describes action to "put in place the agreed sector review processes, ensuring alignment of the next Poverty Reduction Budget Support (PRBS) AR in October 2006 as a temporary process", and takes as an outcome indicator the increase in credit extended to the private sector as a percentage of GDP. Moreover, the PAF mentions the PER Macro Group as an underlying process. The PRGF is referred to under macroeconomic stability in an explicit way as an underlying process. Although the cooperation is generally viewed as effective, some unresolved issues, especially concerning IMF mission briefing/scheduling to DPs and domestic stakeholders, remain. The relationship and separation of roles between the IMF and the GBS DPs are not clear-cut in every respect.

The GoT has announced that, after the end of the PRGF, it intends to make use of the IMF's new **Policy Support Instrument (PSI)**. The PSI "helps countries design effective economic programs that, once approved by the IMF's Executive Board, signal to donors, multilateral development banks and markets the Fund's endorsement of a member's policies"²⁸. It provides more frequent and more in-depth analysis than the routine surveillance process of the IMF. PSI design and procedures are very much like the PRGF, but there is no funding involved and there is no provision for waivers. The IMF emphasises the voluntary and demand-driven nature of the PSI. It is also important for the GBS DPs to make use of the IMF's macroeconomic expertise after the PRGF. However, the GoT and DPs should be aware that in situations where under a PRGF arrangement a waiver would have been granted the PSI offers no flexi-

²⁶ World Bank 2003, p.207.

²⁷ The PRGF 2003/06 includes five quantitative and a structural performance criteria, two quantitative indicative targets, and five structural benchmarks (United Republic of Tanzania, LOI and Memorandum 2006, p. 11 – 13). The PAF includes two outcome indicators (fiscal deficit, inflation rate) which explicitly are required to be consistent with PRGF targets.

²⁸ IMF 2006, p. 1.

bility. This makes eventual cross-conditionality of GBS DPs with a formal IMF on-track status more risky. A domestic NGO argues that domestic stakeholders should be involved in a meaningful way in the shaping of the PSI process²⁹. It should be recalled that the independent evaluation of the PRS/PRGF in Tanzania already noted and regretted the sidelining of civil society.³⁰

4.3 Recommendations

Transparency on the **bilateral rules governing disbursements** should be achieved to strengthen peer pressure for the common rules. Establishing an overview makes it feasible to pursue the objectives mentioned in Article 3 PFM.³¹ Transparency is the first step to reduce the number of bilateral conditions and requirements. If ever the PFM is amended, the signing parties might, as a second step, consider including the list of exceptions as an Appendix to the PFM.³² On such a basis, DPs as a group might negotiate and agree on time-bound, quantitative targets for reduction. A formal donor PAF (see below) would offer an option with considerable strength.

In order to reduce risks, it is proposed to **clarify the relevance of the PAF matrix and its implications**: (1) Do all DPs use the joint overall assessment of the AR as the only determinant of future commitments and disbursements? (2) Is the PAF matrix also a basket of individual elements, on the basis of which an individual DP and the GoT can agree on a subset of criteria for all, or a variable part, of its commitments and disbursements? (3) If yes, does the basket consist of outcome indicators, and/or temporary process actions, and/or underlying processes? (4) What other criteria beyond the PAF matrix are in use for bilateral commitments and disbursements?

Among DPs, there is some uncertainty about how the IMF's role will develop under PSI and a clarification may be helpful in due course. The transition to the PSI, with its emphasis on ownership by the partner country, may be a window of opportunity to **re-think the relationship of the IMF to GBS and its role in the GBS dialogue structures**. An important issue here is clarity about how DPs use the IMF programmes for the signalling effect. Under PSI conditions, access to GBS funding should be defined in a way that DPs retain the flexibility to exercise their own judgement, after consultation with the IMF, whether further disbursements are appropriate or not. On the one hand, duplication of macroeconomic assessments should be avoided to keep transaction costs low; on the other, the monitoring of the macroeconomic framework should be opened up to domestic stakeholders. All interested parties have access to the IMF programme related documents through their publication on the MOF and IMF websites.

²⁹ TASOET 2006.

³⁰ IEO-IMF/OED-World Bank 2004, p. 7 – 8.

³¹ See chapter 4.2

³² In Mozambique, Annex 6 of the Memorandum of Understanding (MoU) explicitly lists all exceptions to the agreed common rules. There is peer pressure against introducing new exceptions and in favour of reducing existing exceptions via the donor PAF.

5 Accountability

5.1 Issues and good practices

Accountability is understood as the obligation of power holders to account, or take responsibility, for their actions. Formal mechanisms ensure the accountability of government actors towards citizens and, in particular, towards poor people. The concept of social accountability includes reliance on a broad range of actions and mechanisms of civic engagement, besides voting, when ordinary citizens, non-state actors including independent media hold government officials and institutions accountable. The contribution of foreign aid is always linked to a demand for accountability by the receiving partners to the donors and their taxpayers. This demand is not peculiar to GBS. The risk is always there that an outward-looking bias is created at the expense of domestic accountability. Interestingly, one of three reasons for GBS being the preferred aid modality for the GoT is accountability: “GBS enables the parliament to hold the Government to account for the proper use of development assistance, as it does for local resources. GBS therefore contributes to the strengthening of domestic accountability in public resource management.”³³

Accountability was identified as one of the issues to be examined for this LA in view of the efficiency and effectiveness of the GBS support to MKUKUTA implementation. The LA team was expected to assess **selected aspects** in order to strengthen GBS processes in a context of wider accountability, including (1) the links of the GBS processes to the GoT’s domestic accountability (parliament, civil society, private sector, media), (2) influence of the donors’ domestic accountability on the GBS partnership, (3) the mechanisms to monitor GBS Partner commitments³⁴ in the sense of mutual accountability.

In terms of **good practices**, other experiences provide the following lessons that are relevant in this context:

- Reinforced domestic accountability in partner countries is not an automatic result of the shift to GBS; domestic political change is the prime mover to drive actors to assume new roles.³⁵
- A significant level of alignment to government systems and procedures is achievable by using normal government reporting systems for budget execution, for service delivery performance, and for progress towards PRS targets.³⁶
- The concept of a PAF can also be applied to the donors’ obligations and offers new ways to strengthen mutual accountability, which again permits a lowering of the transaction costs for the partner governments.³⁷

Box 6: Voices on accountability

- GoT: “A donor PAF is an interesting option but it should not become a disincentive to join the GBS group or to increase the GBS commitments. Another question is how it fits into the JAST context.”

³³ Meghji Opening Statement 2006, p. 3.

³⁴ In particular Art. 7(b) and Art. 18 PFM.

³⁵ Lawson et al. 2005, p. 148 – 150.

³⁶ Lawson/Gerster/Hoole 2005, p. 8.

³⁷ Lawson/Gerster/Hoole 2005, p. 8.

- MP: “DPs have better access to the GoT than members of parliament. Information flows in general have improved in recent years. It is often not easy to track the most relevant information, having to tackle a large volume. The PER is a helpful exercise for us and other stakeholders.”
- NGO: “Decentralisation by devolution will improve domestic accountability. Roll- out of service delivery is too much top down. The local levels should get capacity and time to develop their own institutions and priorities. Downward accountability does not yet function. People are not aware that the government is accountable to them, and the GoT takes advantage of that lack of information.”
- DP: “In domestic terms, the PER is much more important for Tanzania than the GBS Review. The GBS mechanisms of accountability of the GoT to the DPs are not endogenous. There is need for alignment.”
- Non-GBS DP: “It is an absolutely central issue how citizens hold their government accountable for the use of funds. Strengthening domestic accountability also means better use of GBS funds. The JAST takes this issue up. At present, the GoT gives more attention to donor accountability.”

5.2 Observations

Accountability of the GoT to donors is recognised by stakeholders as legitimate, given that 16% of the Government budget is financed by GBS.³⁸ There are different opinions among stakeholders as to what extent accountability to donors is competing with domestic accountability.³⁹ Tanzanian citizens have other means of holding the GoT to account, like elections at the ward level, elections for the village government, at the district councils, for the national parliament and the President. The AR is primarily an event in the cycle of a particular aid modality, the GBS, and not of domestic processes. A major objective of the GBS AR is to assess past performance against the PAF and to place signposts for future cooperation. Despite GoT leadership and a remarkable GoT presence at all levels (the main exception being the Ministry for Infrastructure in TWG1), the DPs retain a strong and demanding role. The key question, however, is whether the process can be organised in such a way that it equally strengthens domestic accountability instead of competing with it. DPs keep on pressing for the participation of the domestic constituencies but neither the DPs nor the GoT should try to influence who represents the civil society in the dialogue. It should be remembered that Art. 4 of the PFM states as an objective “shifting accountability from donors to citizens”. According to the SPA Survey 2006, the GoT again expressed a clear preference for donors to rely on existing domestic processes. NGOs insisted that domestic accountability includes timely access to budget information at a disaggregated level. The capacity of the CSOs to undertake such analytic work requires further strengthening.

GBS is the preferred aid modality of the GoT. Interviews with **MPs** revealed that GBS is also, from their point of view, the most appropriate form of international cooperation. From an administrative perspective, aid should strengthen ownership, be predictable, and be accounted for within the domestic system. Judged on these three criteria, the credibility of GBS was said to be the highest compared to basket or project funding. GBS is audited like own funds, and the independent National Account Office reports to the Public Accounts Committee (PAC). The MPs would welcome better in-

³⁸ The share of all forms of foreign aid amounts to 40% of the budget.

³⁹ While GoT voices did not see accountability to donors as competing with domestic accountability, opinions from the NGO side were more critical.

formation about the PAF and are interested in taking part in a transparent assessment process. To function properly, the PAC urgently needs more research capacity at the technical level. The IMG stipulates⁴⁰ that parliamentary participation should go beyond the annual budget and influence medium- and long-term planning and policy making. Whereas on the GoT side the question was raised whether involving parliament in the GBS-process might pose a problem in relation to the separation of powers, for the MPs the interaction between the legislative and executive powers was what ultimately mattered. An involvement as observers, thus allowing easy access to information on emerging issues, might remain unchallenged. A second best option would be to invite the full-time clerks of the competent parliamentary committees, who could then brief the MPs.

One of the innovations of the AR 2006 was the inclusion of the **media**. The MoF arranged for a media kit (as well as a dinner) to explain the GBS process to the media. Later in the week, several articles about GBS and the AR 2006 appeared in newspapers. The DP community appreciated the involvement of the media. "It was good to inform the media about GBS and the AR. This acts as another way of government accountability to domestic stakeholders", a DP observed.

Concerning **mutual accountability**, the ToRs for the AR 2006 mention among the objectives, "Assess government and DP performance against the PAF", and as a separate point "GoT and GBS partners shall assess GBS partner performance against commitments outlined in the Memorandum of Understanding". An identifiable window on DP performance during the pre-review week, however, was entirely lacking. During the AR itself one element of the obligations – predictability – was included in the key issue of planning and budgeting on a collective basis.⁴¹ The presentation by the GoT made a strong link between medium-term predictability of DP funding and the MTEF. Interestingly, this point was not pursued in the follow-up. DPs insisted instead on the preparation of scenarios for different levels of resource provision. Mutual accountability – DPs to GoT – should ideally take into account the latest development in building a JAST and preparing a Joint Programme Document by all DPs, not only the GBS partners. Self-policing is the demand of the day, and the PRBS secretariat should make sure that GBS DPs live up to their obligations.

Box 7: A donors' PAF: learning from Mozambique

In Mozambique, the DPs involved in GBS, in a spirit of mutual accountability, developed a PAF to assess their own performance in alignment, harmonisation, predictability, transparency, administrative burden, and capacity building, against their MoU obligations and the Paris Declaration on Aid Effectiveness. The donor PAF is assessed annually as part of the AR process, based on reporting by independent experts⁴². This unique experience of Mozambique provides the following lessons:

- The key issues of concern – ownership by donors, effective use of the PAF as a strategic tool for the reform of aid delivery, etc. – are essentially the same as for the PAF of the partner government;

⁴⁰ ESRF 2005, p. 60.

⁴¹ The experience made during the AR 2006 confirms the double standards of DPs to be demanding towards the GoT on the one hand and to act very hesitantly in monitoring their own performance on the other hand. Similarly some years back bilateral agencies agreed that only collective donor performance monitoring should be attempted, see Helleiner 2001, p. 9.

⁴² Killick/Castel-Branco/Gerster 2005.

- The GoM proposal of individual donor ratings was taken up for one year and replaced subsequently by a more consensual form of reporting;
- Reporting on the donor PAF obligations should be coordinated with reporting on the Paris Declaration for Aid Effectiveness;
- A strong government can exert pressure, and the donor PAF process is intended to strengthen GoM ownership and power of negotiation;
- The basic asymmetry and power imbalance of the aid relationship cannot be overruled by a technical tool like the donors' PAF. Self-discipline of donors and peer pressure are among their main resources for producing tangible results.

5.3 Recommendations

It is suggested that the **alignment of reporting to DPs to domestic accountability** processes should be improved. One of the strengths of MKUKUTA is to clearly flag the links between economic growth and poverty reduction. In June every year, the GoT submits an "Economic Survey" to parliament as a background document for the budget debate. The first MAIR was released in October 2006 as a draft. It is recommended that the two reports – both being produced in the MPEE – should be merged into one "MKUKUTA Economic & Social Survey". As a further option, the latest version of the PAF could be added for information as an annex, and the new revised package could be sent to parliament in June. Merging the "Economic Survey" and the MAIR creates a unique vehicle, well embedded in domestic accountability processes, for reporting on economic/social progress.

In the spirit of mutual accountability, a **DPs PAF** should be developed. It is suggested that the same monitoring approach as has been agreed upon for monitoring GoT obligations should be used. A DPs PAF not only serves as a monitoring tool but stimulates progress on agreed objectives. A PAF facilitates the setting of specific annual, or longer-term, targets in implementing DPs' obligations. While appreciating more joint missions and reviews for the past year, the GoT, in the SPA Survey 2006, expressed a further preference for a smaller number of donor missions. However, a conceptual framework to address such an issue and to monitor systematically DPs' performance against their obligations as stated in PFM has so far been lacking. The good practice typified in Mozambique may serve as a helpful inspiration. When establishing a DPs' PAF, the Paris Declaration monitoring already in place and the forthcoming JAST framework are to be taken into account.

GBS is about strengthening governments' performance of their core tasks. Accountability issues require a wider view that includes checks and balances in a society. CSOs, the private sector and parliament should equally have the capacity to perform their roles. DPs should continue and intensify demand-driven **capacity building** of CSOs and media, and the research capacity of parliament.

6 Sustainability

6.1 Issues and good practices

Tanzania pursues “Vision 2025” as a long term goal. The Millennium Development Goals (MDGs) have a time frame of 2015, while MKUKUTA has a medium-term horizon of 2010. There is a huge gap between the resources needed to reach these ambitious objectives and the resources available. Within any of these projections, both the volume and the sustainability of Tanzania’s development efforts are a major issue. Sustainability is also a challenge to the DPs’ way of doing business. So far their **planning horizon** stretches at best to four or five years. However, GBS is more than just another aid modality continuing business as usual. An adequate DP approach includes long-term perspectives. Balancing structural differences between economically weak and strong regions within developed countries may serve as a source of inspiration.

A related issue is the **relationship between external and domestic funding**. If GBS is seen as being long-term and becomes predictable, is it likely to reduce the efforts to raise domestic revenue? Or, on the contrary, is there a positive relationship between the supply of GBS and the efforts to raise domestic revenue? The DAC GBS Evaluation did not find significant negative effects of GBS on tax revenue, but rather strong increases in tax revenue in some countries.⁴³ This may be due to the fact that GBS is often accompanied by agreed revenue targets and TA that specifically address revenue collection. Moreover, GBS operates in consultation with the IMF, which prioritises the issue of domestic revenues. The GBS relationship and its environment influence the long-term sustainability of the public sector by raising sufficient domestic funding for the GoT budget.

In terms of **good practices**, other experiences provide the following lessons that are relevant in this context:

- An evolutionary design of GBS is crucial for providing systemic feedback loops to learn from experience and adapt accordingly.⁴⁴
- Donors should continue to accompany GBS with technical support to strengthen revenue agencies and monitor revenue targets.⁴⁵
- Donors should increase their efforts to programme and commit budget support (subject to performance) over a rolling multi-year framework⁴⁶.

Box 8: Voices on sustainability

- DP: “Sustainability is not yet enough of a priority on the donors’ side. Tanzania will, however, need aid for a long time to grow economically and reach the MDGs and beyond. In view of scaling up resources and improve risk management it would be useful to have a number of PFM scenarios.”
- DP: “Sustainability raises the question of how Tanzania and its context will look in 20 or 30 years. The context here is changing so rapidly that no reasonable statement can be

⁴³ IDD 2006, p. 67.

⁴⁴ IDD 2006, 73 – 75. The DAC evaluation refers here to the Mozambican Learning Assessment and the donor PAF as good practice examples.

⁴⁵ IDD 2006, p. 107.

⁴⁶ IDD 2006, p. 16.

made about sustainability: China is putting a lot of money into Tanzania. The United States invest massively in combating HIV/Aids. Two years ago the two countries were much less visible and engaged.”

6.2 Observations

The GoT has a mixed **track record in raising domestic revenues**. After slipping from 13.5% gross domestic product (GDP) in 1996 to 11.3% GDP in 1999, it increased to 14.2% in 2005/06.⁴⁷ It should be noted that the revenue to GDP ratio is not only subject to domestic revenue increases – which has been about 500% over 10 years – but also to upward revisions of the denominator – the GDP. Having said that, the revenue to GDP ratio is still very low compared to other developing economies of the region (Kenya 22.8% GDP). The GoT intends to continue with rigorous reforms in the revenue side, increasing domestic revenue collection to the equivalent of 14.5% in 2006/07, to 14.7% in 2007/08, and 14.8% in 2008/09.⁴⁸ For the Minister of Finance, a medium- to long-term exit strategy aiming at considerable reduction of aid dependency includes “bringing the informal sector into the tax net and reviewing tax policy in order to reduce exemptions and increase domestic revenue; develop the domestic financial markets which will facilitate government borrowing from local markets; and attract more foreign direct investment FDI and capital flow into the country.”⁴⁹

It is a well-known phenomenon that **bilateral donors often focus on the expenditure side** of the budget and tend to neglect the revenue part. Led by the GoT, a reasonable interest of DPs in domestic revenue mobilisation can be observed. As mentioned above, a new interest in conditionality is surfacing. At best, predictability of GBS can be achieved in the short and medium term but aid, including GBS, is a non-sustainable tool as such. For the time being most of the DPs are not yet considering medium- to long-term exit strategies. But this attitude may change and put the partner country under pressure.

In macroeconomic terms Tanzania is a very stable country that for the past decade has had to request for IMF waivers on few and minor occasions only, particularly where consultant studies were needed (and delayed) and where Parliament took longer than originally anticipated on public hearing around planned new legislations. This macroeconomic achievement facilitates access to external resources, especially in an environment preparing to scale up official development assistance (ODA). In such a situation it can be assumed that **the marginal costs of raising an additional amount of resources** (e.g. USD 100 mio.) may be lower through tapping external development funding than by fighting for increased domestic revenues. Given the high volatility of foreign funding, a focus on ODA at the expense of reinforced efforts on domestic revenue mobilisation would have high risks of unwanted repercussions on the sustainability of Tanzania’s development path towards Vision 2025. The GoT

⁴⁷ United Republic of Tanzania, Macroeconomic Framework, MPEE 2006, p. 3. The 2008/09 target has been revised upward to “more than 15%” according to the Minister of Finance’s opening statement at the AR 2006 (Meghji 2006, p. 10).

⁴⁸ United Republic of Tanzania, Macroeconomic Framework, MPEE 2006, p. 44.

⁴⁹ Meghji 2006, p. 7.

recognises the risks of aid dependency but considers the risk of an abrupt donor withdrawal as rather “remote”⁵⁰, given the shared vision of the JAST.

6.3 Recommendations

Scaling-up of external resources should go hand in hand with increased **domestic resource mobilisation**. A continued strong political will by the GoT to increase domestic revenues in absolute and relative terms will be one of the crucial determining elements of a successful growth and poverty reduction strategy. GBS can contribute to such a sustainable path to the extent that DPs share this concern, support corresponding meaningful indicators in the PAF and provide complementary support to capacity building efforts in revenue collection. Mobilisation of own resources is the best remedy against aid dependency. Taxation does not only provide revenue but also strengthens domestic accountability. It is noteworthy that the IMG advocated an exit strategy towards a smooth transition from aid dependence.⁵¹

7 Closing remarks

A good practice recommended by the DAC is that “donors should engage in an active communication strategy with their political constituencies and civil society in order to enhance the understanding of budget support, its opportunities and the related risks. An informed discussion on the benefits of budget support will help to create more awareness of the long-term commitment required by this form of direct support, mitigating the risk of disruption due to factors under the donor’s control. A better understanding of budget support and of the related importance of partner countries’ own systems and priorities will also provide an incentive for donors to move the policy dialogue away from narrowly defined individual agendas.”⁵²

The GBS AR 2006 in Tanzania ended with an overall positive assessment. However, the considerable influence of domestically-driven considerations on the donor side surfaced on a number of occasions. For example: the formal and informal debates on project vs. sector vs. budget support; the discussion on the reform of the PAF; the priority setting in the dialogue; and the GoT concerns on predictability. In future, and not only in the case of Tanzania, there needs to be a closer look at how the donors’ domestic dimension impacts on the GBS partnership. Transparency might be the first step towards taking measures to mitigate potentially destabilising effects on the developmental efforts of partner countries. In a long-term relationship, both sides, DPs as well as the GoT, need to sustain trust and track records of reliability.

⁵⁰ Meghji June 2006, p. 7.

⁵¹ ESRF 2005, p. 64.

⁵² DAC 2005, p. 18. Similarly, explaining GBS to the public in their home countries is viewed as the main challenge for donors in a recent ECDPM Policy Brief on Tanzania’s aid modalities, see Wohlge-muth 2006

8 Annexes

8.1 Annex 1: Tanzania GBS facts and figures

GBS financial support 2006/07:

USD 660 million (up from USD 277 million in FY 2002/03)

GBS as share of GoT Budget in FY 2006/07: 16%

14 Development Partners' contribution to GBS:

Agency	Share
African Development Bank	11.2%
Canada	3.3%
Denmark	2.3%
European Commission	7.4%
Finland	1.6%
Ireland	2.0%
Japan	0.7%
Germany	1.5%
Netherlands	3.8%
Norway	4.2%
Sweden	6.2%
Switzerland	0.7%
United Kingdom	24.9%
World Bank	30.3%
<i>Total</i>	<i>100%</i>

DPs Troika 2006/07:

Switzerland (chair)
United Kingdom (incoming chair)
Sweden (outgoing chair)

Composition of ODA in National Budget by Aid Modality:

TYPE	FY 2002/03	FY 2003/04	FY 2004/05	FY 2005/06	FY 2006/07
GBS	30%	38%	34%	38%	42%
Basket Funds	16%	18%	21%	20%	16%
Project Funds	54%	44%	45%	42%	42%

DPs contribute 40% of the recurrent budget (GBS, basket and project funding)
80% of development budget (GBS, basket and project funding)

Source: United Republic of Tanzania, GBS AR 2006 Media Information

8.2 Annex 2: List of interviews

Name	Position, Institution
Jackson Biswalo	Chief Programme Officer, Japan International Cooperation Agency (JICA)
Gideon Brown	Secretary, Public Accounts Committee (PAC)
John Momose Cheyo	MP, Chairman, Public Accounts Committee (PAC), Chairman United Democratic Party
Shunichiro Honda	Advisor (PFM), Japan International Cooperation Agency (JICA)
Mathias Kabunduguru	Director Policy Development, President's Office Public Service Management
Mugisha G. Kamugisha	Commissioner for Policy Analysis, Ministry of Finance
Valerie Leach	Coordinator for Policy Analysis, Research on Poverty Alleviation (REPOA)
Festus Limbu	MP, member Public Accounts Committee (PAC)
Bede Lyimo	Ag Chief Executive Officer, Better Regulation Unit, Ministry of Planning, Economy & Empowerment (MPEE)
Nashon B. S. Magambo	Commissioner for Budget, Ministry of Finance
Shireen Mahdi	Economic Advisor, Embassy of Ireland
Wilberforce Mariki	Macroeconomist, African Development Bank
N.M. Masswe	Programme Officer, TANGO
Zakia H. Meghji	Minister of Finance
Gray S. Mgonja	Permanent Secretary to the Treasury, Ministry of Finance
Allister Moon	Lead Economist, World Bank, Dar Es Salaam Office
Gertrude Mugizi	Policy Forum
Joel J. K. Mwanza	Assistant Accountant General, Ministry of Finance
Anna Mwashia	Assistant Director Poverty Eradication Department, Ministry for Planning, Economy & Empowerment (MPEE)
D. Nakei	MP, member Public Accounts Committee (PAC)
René van Nes	European Commission
Judy M. O'Connor	Country Director for Tanzania and Uganda, World Bank
Yuzuru Ozeki	Resident Manager, Japan Bank for International Cooperation
Torbjörn Pettersson	Counsellor, Head of Development Cooperation, Embassy of Sweden
John Piper	Economic Advisor, United Kingdom Department for International Development (DFID) (DP-Head TWG6)
Stephen Potter	Counsellor, Development Analyst, Canadian High Commission (DP-Head TWG2)
Kevin Quinlan	Growth Policy Advisor, United Kingdom Department for International Development (DFID) (DP-Head TWG1)
Martin Saladin	Deputy Head of Swiss Cooperation
Ernest S. Salla	Assistant Resident Representative/Team Leader, United Nations Development Programme (UNDP)
Lelde Schmitz	Senior Resident Representative International Monetary Fund
Ian Shapiro	Programme Manager, United Kingdom Department for International Development (DFID)
David Stanton	Country Director, United Kingdom Department for International Development (DFID)
Pio Wennubst	Chair GBS – DPs, Head of Swiss Cooperation
Paul Wittingham	Programme Manager Accountable Governance, United Kingdom Department for International Development (DFID)
Naoki Yokoba Yashi	First Secretary/Development, Embassy of Japan

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