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Joint Evaluation of Budget Support to Tanzania: lessons learned and recommendations for the future

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Consortium of
ADE, ITAD and COWI
Consortium leader: ADE s.a
Contact Person: Jean-Marie Wathelet
Jean-Marie.Wathelet@ade.eu

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The opinions expressed in this document represent the opinions of the authors which are not necessarily shared by the European Commission, the Ministry of Foreign Affairs of Denmark, Irish Aid, the Ministry of Foreign Affairs of the Netherlands, or by the Government of Tanzania.

This report has been prepared by:

12 English Business Park
English Close, Hove, East Sussex, BN3 7ET
United Kingdom
T: +44 1273 765250
Web: itad.com

In collaboration with:

Evaluation Team

Andrew Lawson	Team Leader & PFM specialist
Jonas Kipokola	Senior Advisor
Tim Ruffer	Growth Sector Lead
Per Tidemand	Governance Sector Lead
Elizabeth Paul/ Ann Bartholomew	Social Sectors Lead
Damian Gabagambi	Agriculture Specialist
Faustin Mukyanuzi	Education Specialist
Arthur Mwakapugi	Energy Sector Specialist
Yahya Ipuge	Health Specialist
Charles Kaira	Transport Specialist
Machibya Magayane	Water and Sanitation Specialist
Jamal Msami	Poverty Data Analyst
Aline Muller	Senior Econometrician
Stephanie Heck	Assistant Econometrician
Frieda Vandeninden/ Gonzalo Contreras	Macro-economist/ Statistician
Johansein Rutaihwa	Research Assistant
Adrianna Rockford	Research Assistant
Derek Poate/ Karolyn Thunnissen	Quality Assurance

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Acronyms and Abbreviations

AGA	Autonomous Government Agency
AIDS	Acquired Immune Deficiency Syndrome
AMP	Aid Management Platform
AR	Annual Review
ASDP	Agriculture Sector Development Programme
BAE	British Aerospace
BEST	Basic Education Statistics for Tanzania
BoT	Bank of Tanzania (Central Bank)
BSG	Budget Support Group (of Development Partners)
CBF	Common Basket Fund
CCM	Chama Cha Mapinduzi
COSS	Cost-of-Service Study (for TANESCO)
CPI	Consumer Price Index
CSEE	Certificate of Secondary Education Examination
Danida	Danish International Development Assistance
D by D	Decentralisation by Devolution
DFID	UK Department for International Development
DHS	Demographic & Health Survey
DP	Development Partner
DPG	Development Partners' Group
EPA	External Payments Account (of the BoT)
EQ	Evaluation Question
ESDC	Education Sector Development Committee
ESDP	Education Sector Development Programme
ESPR	Education Sector Performance Report
EU	European Union
FDI	Foreign Direct Investment
GBS	General Budget Support
GDP	Gross Domestic Product
GER	Gross Enrolment Rate
HBS	Household Budget Survey
HIV	Human Immunodeficiency Virus
HRH	Human Resources for Health
HSSP	Health Sector Strategic Plan
ICA	Investment Climate Assessment
IFMS	Integrated Financial Management System
IMF	International Monetary Fund
JAST	Joint Assistant Strategy for Tanzania
JC	Judgement Criteria
JESR	Joint Education Sector Review
JISR	Joint Infrastructure Sector Review
LGA	Local Government Authority
LGDG	Local Government Development Grant
LGRP	Local Government Reform Programme
M&E	Monitoring and Evaluation
MAIR	MKUKUTA Annual Implementation Report
MCDGC	Ministry of Community Development, Gender & Children
MDAs	Ministries, Departments and Agencies
MDG	Millennium Development Goal

MKUKUTA	Mkakati wa Kukuza Uchumi na Kupunguza Umaskini Tanzania
MKUZA	Mkakati wa Kukuza Uchumi na Kupunguza Umaskini Zanzibar
MMS	MKUKUTA Monitoring System
MoEM	Ministry of Energy and Minerals
MoEVT	Ministry of Education and Vocational Training
MoF	Ministry of Finance
MoHSW	Ministry of Health and Social Welfare
MoU	Memorandum of Understanding
MoWI	Ministry of Water and Irrigation
NAO	National Audit Office
NBS	National Bureau of Statistics
NECTA	National Examinations Council of Tanzania
NER	Net Enrolment Rate
NPS	National Panel Survey
OC	Other Charges
ODA	Overseas Development Assistance
ODI	Overseas Development Institute
OI	Outcome Indicator
PAF	Performance Assessment Framework (for GBS)
PCCB	Prevention & Combating of Corruption Bureau
PE	Personal Emoluments
PEDP	Primary Education Development Plan
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Survey
PFM	Public Finance Management
PFMRP	Public Finance Management Reform Programme
PHDR	Poverty and Human Development Report
PMO-RALG	Prime Minister's Office - Regional Administration and Local Government
PO-PSM	President's Office – Public Sector Management
PSI	Policy Support Instrument
PSLE	Primary School Leaving Examination
PTR	Pupil:Teacher Ratio
REPOA	Research on Poverty Alleviation
RTSPSP	Road Transport Sector Policy Support Programme
SBS	Sector Budget Support
SDC	Swiss Development Cooperation
SECO	State Secretariat for Economic Affairs (Switzerland)
SEDP	Secondary Education Development Programme
Sida	Swedish International Development Agency
SSA	Sub Saharan Africa
SWASH	School Water, Sanitation and Hygiene
TAA	Tanzania Airports Authority
TAFSIP	Tanzania Agriculture and Food Security Investment Plan
TANROADS	Tanzania National Roads Agency
TPA	Temporary Process Action (agreed within PAF)
TPDC	Tanzania Petroleum Development Corporation
TSh	Tanzanian Shilling
TWG	Technical Working Group
UK	United Kingdom
UNICEF	United Nations Children's Fund
UP	Underlying Process
WSDP	Water Sector Development Programme

Executive summary

This study has evaluated the General and Sector Budget Support operations undertaken in Tanzania from 2005/06 to 2011/12. These operations amount to a resource transfer of almost US$ 5,000 million - an annual average disbursement of US$ 694 million, some $16 per annum per head of the Tanzanian population, provided by 14 Development Partners. In evaluating these operations, our study has addressed three questions:

i. How successful have GBS and SBS been in providing the means to the Government of Tanzania to implement its national and sectoral strategies? (EQ. 1.1 – 2.3)
ii. How successful have GBS and SBS been in facilitating improvements in the efficiency and effectiveness of these national and sectoral strategies? (EQ. 3.1 – 3.5)
iii. As a consequence, how successful have GBS and SBS been in attaining successful outcomes and impacts on growth and poverty reduction? (EQ. 4.1 & 4.2.)

Summary Overview

Over the past 8 years, Budget Support has had an important influence on growth, on improved outcomes in the education sector and on improvements in non-income poverty. Budget Support funds have allowed the Government to maintain a high level of development spending throughout the period, without increasing domestic borrowing, contributing to a sustained level of public investment and a fast recovery from the global financial crisis.

In terms of the economic and sectoral composition of spending, there is evidence that Budget Support funding facilitated several important changes. For most of the evaluation period, it is Budget Support, which permitted non-salary recurrent spending to be fully financed, without recourse to borrowing, alongside an expanding level of domestically financed development spending. Total spending on the 6 priority sectors designated in MKUKUTA (agriculture, education, energy, health, roads and water) more than doubled in nominal terms over the evaluation period, increasing by 5 percentage points of GDP. As a percentage of total expenditure, these six priority sectors increased their share from 40 % to just over 50% of total spending.

The bulk of this incremental funding was absorbed within the education sector, facilitating the continued growth of primary school enrolments, which doubled over the decade, and allowing transition rates from primary to secondary to grow from 20% in 2006 to 54% in 2012. The roads sector also saw sharply increased domestic funding, contributing to a 14% expansion of the national roads network over 2008 to 2011. Domestic allocations to other sectors were maintained, which alongside project and common basket funding, contributed to steady improvements in health sector outputs and outcomes.

Significant improvements were made in non-income poverty. From 2000 to 2011, Tanzania's Human Development Index increased from 0.364 to 0.466 (Human Development Report, 2011), shifting from significantly below the SSA average to slightly above it. There were particularly strong achievements in education and health, where availability of services to the poor has steadily improved.

In relation to income poverty, the 2007 Household Budget Survey (HBS) estimated that the proportion of people living in poverty decreased from 35.6% of the population in 2001 to 33.3% in 2007. This reduction in the poverty ratio would not have compensated for the estimated annual population growth rate of 2.0%. However, the estimated decline in the poverty rate is within the boundaries of statistical error: it is possible that the reduction was in fact twice the reported amount but also that there was no income poverty reduction over the period. Thus, data point to either stagnation or a modest fall in income poverty rates over 2001 to 2007.

In part, this may be attributed to the heavy emphasis on investments in the social sectors, which allowed the poor to increase consumption of free services and thus to improve their welfare but had little immediate impact on income poverty. In part, the staganation in income poverty rates must also be attributed to weaknesses in policies within the productive sectors.

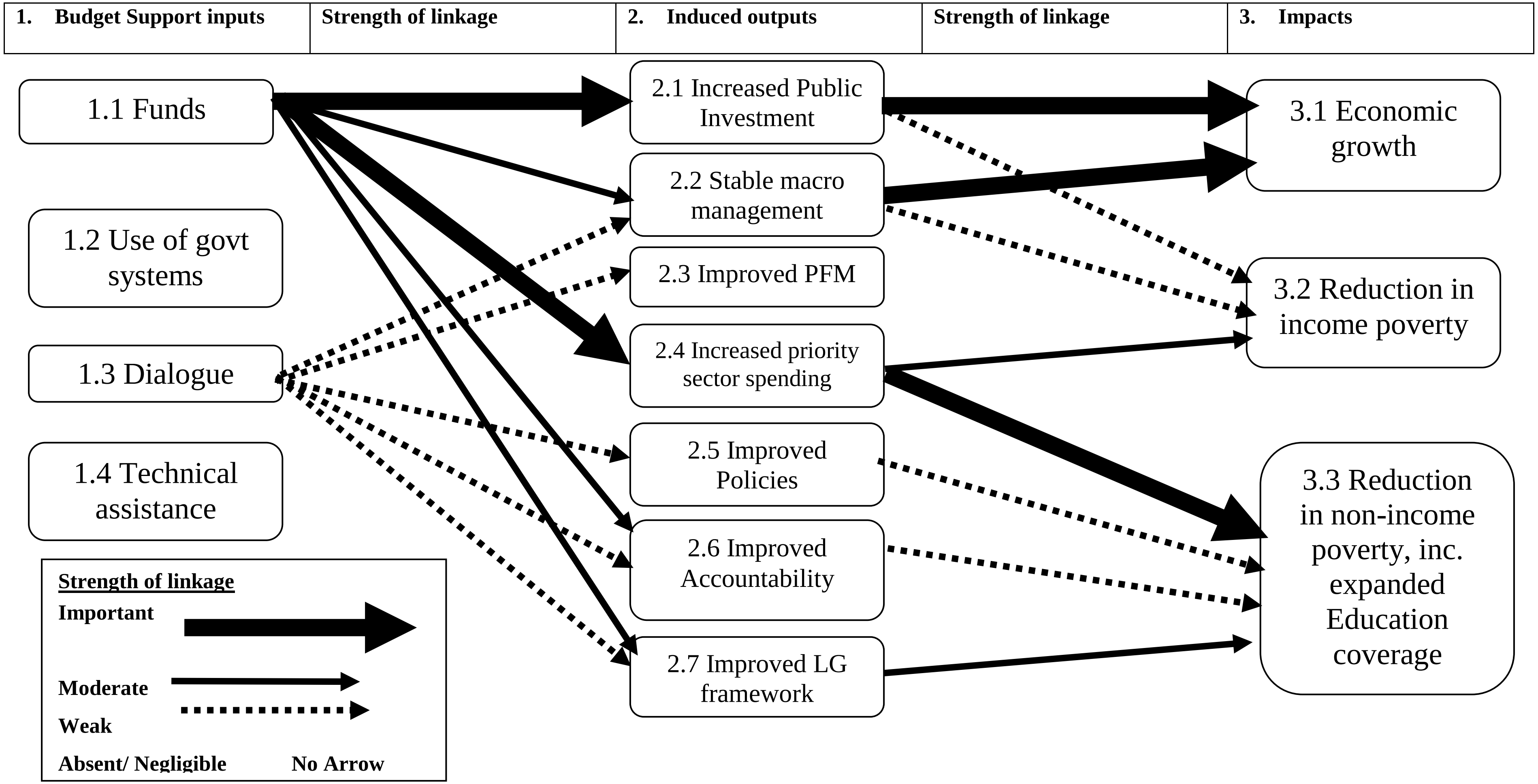
Steady progress was achieved in PFM reform and in governance, especially the fight against corruption. The Prevention and Combating of Corruption Act was passed in 2007 and the PCCB (Prevention & Combating of Corruption Bureau) significantly increased the scale of its operations, more than doubling the number of cases prosecuted from 218 in 2005 to 587 in 2010. There is strong evidence that the combination of GBS funding through the budget with targeted support to institutions of accountability such as the NAO, the Parliament, CSOs, media and Local Government Authorities has created more transparency.

These are important achievements, which add up to a positive overall balance sheet. Yet, other aspects of performance have been less positive, particularly considering the maturity of the Budget Support instrument in Tanzania, and the influence it was therefore expected to have on policy design and reform implementation. Overall, there is a sense that with a different design and management approach to Budget Support, achievements would have been greater.

The primary contribution of Budget Support has been to assist in scaling up funding within the priority sectors. Yet, the complementary inputs of Budget Support, which might have helped to generate a greater impact, have functioned less effectively. Budget Support has supported the creation of an effective structure for dialogue, based upon the definition of policy targets and a framework of annual monitoring but the contributions of the Budget Support partners to this framework have not served to generate an open, strategic and problem-focused dialogue. In addition, complementary inputs for technical assistance and capacity building have been limited and the potential wider effects of Budget Support on aid effectiveness have not been exploited.

We illustrate the principal contributions of Budget Support in the diagram overleaf. It should be noted that it would normally be expected that enhancement of PFM systems would facilitate improvements in final outcomes by raising the efficiency of public spending. However, the evaluation team judged that the modest improvements recorded in PFM systems would not have been sufficient to generate a significant change in the efficiency of public expenditure.

Diagrammatic overview of aggregate impact of Budget Support in Tanzania



Our conclusion is that neither project funding nor common basket funding could have achieved these same results with the same degree of efficiency, effectiveness and sustainability. In particular, we point to the following factors:

- The funding provided through Budget Support of some US $ 650 million per annum would have been equivalent to some 200 additional project and Common Basket Fund operations, disbursing $3-5 million each per annum. The additional transaction costs of opting for alternative modalities would therefore have been prohibitive.
- It would have been difficult for GoT to utilise such operations to finance recruitment of additional teachers or to provide non-salary recurrent cost funding.
- Historical data suggests that the predictability of annual disbursements from projects and of Common Basket Fund operations would have been some 20-25 % below that achieved for Budget Support and with a much higher annual volatility.
- The sustainability of this incremental project funding would have been difficult to ensure, whereas over time Budget Support funding is being replaced with domestic revenue, using the same planning and budgeting procedures and hence ensuring sustainability.
- Finally, while we have concluded that the space for policy dialogue afforded by Budget Support has not been used to its fullest advantage in Tanzania, it has served to generate certain improvements in the design and implementation of policies and strategies, which could not have been generated by the more limited spaces for dialogue offered by project and CBF arrangements.

Looking forward, it is clear that the Budget Support providers, working with Government, need to find ways of improving the quality of policy dialogue, and of developing more effective capacity-building initiatives, while maintaining the predictability of Budget Support flows. Government must also find ways of improving the design of its poverty reduction policies and of strengthening reform implementation. We turn to these issues in our recommendations below, but first present the evaluation findings, grouped according to the key evaluation questions.

Providing the means to implement Government policy (EQ. 1.1-2.3)

In relation to financial inputs, Budget Support inputs have been important and efficiently delivered. Disbursements during the 7-year evaluation period were substantial both in fiscal terms – where they represented on average 14 % of public spending, and as a proportion of total ODA, where they comprised an average of 37 %. Moreover, they provided a predictable source of annual funding, with disbursements generally in excess of the projected disbursements. However, there is limited evidence of Budget Support exerting a wider influence on the overall effectiveness of aid.

The Budget Support process has succeeded in creating a functional, harmonised framework for the annual assessment of progress and for a related policy dialogue but the quality of dialogue is undermined by significant shortcomings. Specifically, the process is characterised by a low level of government ownership, high transaction costs, technical weaknesses in PAF indicators, and the lack of a strategic, policy-solving orientation.

In the limited cases where Budget Support operations include provisions for capacity building, they have tended to under-disburse because of the lack of demand for such support from Government. This lack of demand is largely driven by a negative perception of past capacity building, and by a distrust of externally financed TA.

Facilitating improvements in Government policies (EQ 3.1-3.5)

The management of aggregate fiscal and macroeconomic policy has been of high quality. Domestic revenue mobilisation increased by 5 percentage points of GDP over the evaluation period, considerably out-performing Uganda and narrowing the gap with respect to Kenya. Total spending increased by 3 percentage points of GDP as a consequence of expanded development spending. Recurrent expenditure was stabilised at 17% of GDP, a level that could be sustained by domestic revenues alone. The fiscal deficit fluctuated in response to the global financial crisis, returning to a more sustainable level again in 2011/12. There is evidence that Budget Support funding contributed significantly to these achievements, without introducing substantive negative side-effects.

A programme of Public Finance Management reform has been in place throughout the evaluation period, to which the Government has shown a clear commitment. Improvements have been achieved in certain aspects of the PFM system – notably in transparency and oversight, but weaknesses persist in the core functions of budget formulation, budget execution and financial reporting, as well as in the monitoring and control of contingent liabilities. The current PFM reform programme, PFMRP IV, presents a coherent programme of reforms clearly linked to results but it does not fully address the continuing shortcomings in these core functions.

In terms of the economic and sectoral composition of spending, there is evidence that Budget Support funding facilitated important changes. For most of the evaluation period, it is Budget Support, which permitted non-salary recurrent spending to be fully financed, without recourse to borrowing, alongside an expanding level of domestically financed development spending. Total spending on the 6 priority sectors designated in MKUKUTA (agriculture, education, energy, health, roads and water) more than doubled in nominal terms over the evaluation period, increasing by 5 percentage points of GDP. As a percentage of total expenditure, these six priority sectors have increased their share from 40 % to just over 50 % of total spending.

With regard to governance and accountability, there is evidence of improvements over the period of the evaluation: The National Audit Office (NAO) has improved the scope, timeliness and quality of audit reports. The Parliament has significantly strengthened its oversight role, through the Public Accounts Committees (PACs). CSOs and the media have also become more active on corruption issues and in reporting on budgetary questions. The Tanzania Prevention and Combating of Corruption Act was passed in 2007, which strengthened the powers of the PCCB. The PCCB has significantly increased the scale of its operations and has shown improvement in key performance indicators, notably in the number of cases prosecuted.

Development Partners have increasingly used GBS as the forum for discussion of corruption concerns with Government. In particular, the high level dialogue on corruption - led by the Troika-plus members of the BSG - was launched during the evaluation period. This has created an avenue for communication between Government and DPs, through which the Government now provides information on progress in anti-corruption efforts, which had not been provided in the past.

In addition, **there is strong evidence that the combination of GBS funding through the budget with targeted support to institutions of accountability such as the NAO, the Parliament, CSOs, media and LGAs has created more transparency.** Targeted project support to the institutions of accountability has been fundamental to this achievement but Budget Support inputs have also been important. This is therefore an area where complementarities between Budget Support and other modalities have been strongly positive.

During the evaluation period, the Government has in several ways sought to improve the quality of public administration systems for local service delivery. The level of funding of Local Government Authorities for service delivery has increased dramatically. Development grant transfers are now to a large extent provided through a formula based Local Government Development Grant, although efforts to introduce a formula based allocation for the recurrent budget have been abandoned.

Yet, the influence of Budget Support on the improvements in service delivery processes at local government level must be considered modest. The availability of increased funding was important but the innovations introduced for LGA financing, the improvements in reporting and the broader development of capacities at the LGA level were driven by the Local Government Reform Programme, supported through projects and a Common Basket Fund.

Attaining sustainable outcomes and impacts (EQ. 4.1 and 4.2)

Regarding economic growth and investment, Tanzania has experienced, over the past decade, some of the highest growth rates in Sub-Saharan Africa. For the first time since independence, it has broken out of the cycle of short-lived accelerations in growth that has characterised many low-income countries, enjoying strong uninterrupted growth since the mid-1990s.

In relation to poverty outcomes, the 2007 Household Budget Survey (HBS) found that the proportion of people living in poverty decreased from 35.6% of the population in 2001 to 33.3% in 2007. However, the estimated decline in the poverty rate is within the boundaries of statistical error: it is possible that the reduction was in fact twice the reported amount but also that there was no income poverty reduction over the period. Thus, data point to either stagnation or a modest fall in income poverty rates over 2001 to 2007.

Whilst income poverty has not declined significantly in the past decade, non-income measures of poverty have shown significant improvements. From 2000 to 2011, Tanzania's Human Development Index increased from 0.364 to 0.466 (Human Development Report, 2011), shifting from significantly below the SSA average to slightly above it. There were particularly strong achievements in education and health. The 2000/1 and 2007 Household Budget Surveys also showed improvements in some indicators of welfare (education and ownership of assets).

Education was designated as a 'priority sector' in MKUKUTA and has throughout the evaluation period commanded the highest share of the national budget. As a result, Tanzania is now one of the few Sub-Saharan countries, which is close to universal primary education, with total enrolments having doubled over the decade to 2012. Transition rates from primary to secondary also increased from 20 % in 2006 to 54 % in 2012.

The scale of expansion of the primary and secondary systems has made it difficult to sustain quality, with average pass rates deteriorating at both primary and secondary levels. At the primary level, average exam pass rates have started to increase again in 2011 and 2012, and pupil: teacher ratios are improving. Yet, these gains are fragile and funding must continue to expand if they are to be consolidated. At the secondary level, the total number of pupils passing exams has increased but average pass rates have fallen to only 10 %, underlying the need for investments to improve quality.

Recommendations on Development Partners' Budget Support policies

The Tanzania evaluation holds clear lessons about what works and what does not work with regard to Budget Support. These lessons reinforce conclusions from the recent Budget Support evaluations in Mali, Tunisia and Zambia as well as from the most recent research published by the Netherlands Ministry of Foreign Affairs (IOB, 2012). In developing recommendations for the Development Partners, we make a plea that the formulation of future Budget Support policy should draw upon this evidence, identifying where Budget Support can generate real results, while recognising that it has limitations and that it demands an operational understanding of how relations with a partner government should be conducted within a Budget Support context.

a) **Design policies and strategies on the use of different aid modalities, based upon the available evidence regarding their relative effectiveness.** Increasing scepticism over the effectiveness of Budget Support has marked the period of this evaluation. Yet, the experience of Tanzania has shown that, in contrast to other modalities, Budget Support can contribute to the scaling up of public spending on agreed, high priority areas in a manner which is predictable, low in transaction costs and conducive to good fiscal and macroeconomic management. Moreover, these additional resources can be utilised effectively to obtain tangible and sustainable benefits, which contribute to the reduction of non-income poverty, and which would probably support the reduction of income poverty in the longer term. Given that so many countries, with profiles similar to Tanzania, are in urgent need of scaling up basic public services, such as education, health, water and sanitation, road infrastructure and agricultural support services, there would appear to be good grounds for continuing to make use of the aid modality, which is precisely suited to this scaling up task.

b) **Define and disseminate realistic operational expectations, regarding the potential contribution of Budget Support processes to policy making and monitoring in partner governments**. To a significant degree, the emerging scepticism over Budget Support has been the consequence of the creation of unrealistically high expectations over its likely influence on the design and implementation of partner government policies and the consequent disappointment at the failure to meet those inflated expectations. In the case of Tanzania, many DPs had expected Budget Support processes to promote a more effective poverty reduction policy, as well as faster progress in the reform of PFM, in the fight against corruption, and in the improvement of the environment for doing business. For several DPs, the modest progress achieved in these areas did not match the expectations, which had been created at their headquarters, generating what were, in retrospect, unhelpful pressures on resident missions to somehow "leverage" faster change. By 2005, Budget Support processes had been successful in establishing a structured, harmonised framework for setting targets for key reform and service delivery areas and for annual monitoring of their achievement. This was an important contribution, which has been preserved within the current evaluation period and which has also been evidenced in other countries. Thus, experience has shown that it is reasonable to expect Budget Support to facilitate the creation of such a framework. Experience suggests, however, that it is less reasonable to expect such a framework to generate fast policy results with regard to poverty reduction or to generate fast institutional reform – especially when such reforms are complex, "second generation" reforms. Yet, Budget Support in Tanzania did facilitate some improvements in policy design and implementation, and we have concluded that with more care over the conduct of policy dialogue these contributions could have been greater. DPs' operational guidance on Budget Support therefore needs to recognise that policy influence is unlikely to be transformational, but that it can be important, when carefully nurtured and managed.

c) **In order to maximise opportunities for effective dialogue, DPs should ensure that operational practice on Budget Support respects the principle of partnership and limits the use of "conditionality" and "policy leverage".** The Tanzania evaluation demonstrates yet again that it is domestic political constituencies which dictate the pace and direction of policy reforms and that external actors have very limited influence over these domestic constituencies. It also demonstrates that attempts to "force" policy directions on government are only likely to sour the policy dialogue and to complicate the process of finding constructive solutions. These lessons from past evaluations are generally well reflected in the formal policy statements of the DPs but in Tanzania, the DPs collectively failed to ensure they were properly reflected in the operational practice of managing Budget Support. It is important for DPs to ensure that their policies are applied on a systematic basis.

d) **The aid portfolio and the corresponding framework of staffing and consultancy support should be managed so as to create areas of expertise to support effective policy dialogue.** Providing a constructive input into policy dialogue presupposes, firstly, entering into the dialogue in a spirit of trust and mutual respect (following the recommendation above on policy leverage) and, secondly, bringing to bear a base of sectoral and thematic expertise so as to provide real "value added" through policy advice. Budget Support dialogue often covers a range of sectors and themes, and embraces policy issues of considerable technical and institutional complexity. Appropriate and up-to-date policy knowledge and expertise is needed in order to ensure constructive inputs into dialogue. Both GoT and DP stakeholders in Tanzania commented that many agencies displayed weaknesses in this respect. If the contributions of Budget Support dialogue are to be optimised, then DPs need to find ways of overcoming these weaknesses. This implies different strategies for different DPs but each Budget Support providing agency ought to prepare and implement an explicit strategy to develop and nurture its areas of comparative advantage so as to be certain to bring the necessary expertise to the dialogue table.

Recommendations on policies of the Government of Tanzania

If Budget Support is to be more effective in future, the instrument itself must change but the Government of Tanzania must also find ways of addressing policy and capacity weaknesses more effectively. We make three recommendations in this respect:

a) **Strengthen policy formulation in those areas, which are of most strategic importance to Government by focusing analytical and policy formulation efforts more closely on priority areas.** All governments struggle to formulate effective and efficient policies and to adapt and refine their policies in the light of results. Tanzania is no exception and the evaluation identified a number of policy areas, where there would appear to be room to improve policies. While such policy problems are always difficult to solve, our perception is that these inherent difficulties are worsened by the fact that government efforts are, for various reasons, pulled in different directions so that it has become difficult to concentrate on resolving the most important policy problems. The "Big Fast Results Now" approach, which was presented by the GoT at the 2012 Annual Budget Support Review seems to provide an excellent way forward to address this problem, using the proposed "policy laboratories" methodology, which has been implemented with such success in Malaysia and Indonesia. The three areas of policy weakness we have identified – Agriculture, Education and Energy – all fall within the priority areas already identified for the Big Fast Results approach. We therefore recommend a determined adherence to this policy formulation approach as a way of strengthening policy.

b) **Engage with Development Partners to find innovative ways of utilising local and international technical assistance to address capacity weaknesses.** The evaluation identified capacity weaknesses as a constraint within MoF and other government ministries and departments. The IMG Report of 2010 and the PEFA report of 2009 also drew attention to these capacity weaknesses. Clearly, the primary response to capacity weaknesses should be to develop local skills and capabilities and, thus, to draw on the local technical assistance market as far as possible. Yet, there are limitations in the extent to which local technical assistance can respond adequately to the specific policy needs and the particular capacity building challenges. The Government's reluctance to make use of international TA seems to be closing off a potential avenue to address those constraints, which cannot immediately be met with local expertise. We therefore recommend that Government should engage in a dialogue with its Development

Partners to find innovative and effective ways to utilise technical assistance to build up strategic capacities.

c) **Review the focus of the current Public Finance Management Reform Programme (PFMRP IV) so as to find ways of addressing the continuing weaknesses in budget formulation, budget execution, financial reporting and control of contingent liabilities.** The current strategy for PFM reform includes a number of important reforms and provides a useful, results-based structure for monitoring. However, it does not adequately address continuing weaknesses in budget formulation, budget execution, financial reporting and control of contingent liabilities, which were identified in the 2009 PEFA and also highlighted by more recent IMF and World Bank reports. These weaknesses undermine the functionality of the core public expenditure management system, and need to be addressed as a matter of some urgency. The objective should be to diagnose these continuing problems more carefully so as to design solutions to the on-going problems and lay out an appropriate sequence of corrective measures and capacity building interventions.

Recommendations on the design & management of GBS/ SBS in Tanzania

There are four inter-related weaknesses with the current performance assessment and dialogue process. These are: (i) a lack of adequate Government ownership and leadership over the process; (ii) an inadequately informed and insufficiently strategic process; (iii) inadequate attention to the creation of national capacities for policy and reform design and adaptation; and iv) excessively high transaction costs. As far as possible, the causes of these weaknesses need to be diagnosed so that appropriately tailored solutions may be implemented. We present in Table 27 our diagnosis of the main causes of these weaknesses, and show the links to the solutions we propose.

Eight actions are proposed to address the structural weaknesses in the performance assessment and dialogue process:

1) **Separate processes should be created for the "auditing" of minimum conditions for disbursement, on the one hand, and the wider review and discussion of progress in MKUKUTA and in key reforms, on the other.** The former should depend on fulfilment of minimum conditions related to macro-economic management, commitment to MKUKUTA, implementation of PFM reforms and transparency in budget reporting, as well as respect for the underlying principles, agreed in the Partnership Framework Memorandum. The fulfilment of these conditions should determine the disbursement of the bulk of Budget Support, through fixed tranches. The content of the latter would be dictated by Government and would focus on key reforms and strategy questions, where policy dialogue might help in improving policy and solving institutional problems. Performance in these policy areas would not generally be linked to disbursements, with the exception of a limited number of relatively small performance tranches, whose disbursement would be directly linked to easily and objectively measureable areas of performance in service delivery.

2) **In order to avoid conflicts of interest and ensure a more streamlined assessment**

process, the "auditing" of the minimum conditions for disbursement of the fixed tranche should be undertaken through an annual, independent, process. Assigning this assessment process to a separate independent group of professionals would ensure the separation of auditing and dialogue and would avoid conflicts of interest. This would be a single unified process, drawing on the conclusions of the IMF PSI review, as well as the results of PEFA evaluations and other such independent assessments, but covering the full range of the "minimum conditions" established for Budget Support, within the Partnership Framework Memorandum. This independent annual assessment would generate recommendations on the disbursement of the fixed tranches of Budget Support, as well as providing "warnings", where relevant, of signs of potential future problems regarding the minimum, eligibility conditions for Budget Support. These recommendations would provide the basis for the individual disbursement decisions of each Budget Support provider – thus decisions over disbursements would remain where they currently lie. The composition of this independent assessment group would need to be agreed between the GoT and its Budget Support partners. It should involve a mix of Tanzanian and international professionals, with the adequate range of expertise to assess each of the minimum, eligibility conditions for Budget Support. We recommend consideration of three potential options for its composition: i) a mix of DP headquarter staff and Tanzanian academics and professionals nominated by GoT; ii) a mix of international and Tanzanian academics and professionals, nominated by the DPs and GoT; iii) a mixed team proposed by a research organisation or "think-tank" or professional auditing firm and selected jointly by GoT and its Budget Support partners, in response to a tender process.

3) **A formal annual, independent assessment of compliance by DPs with their commitments under the Partnership Framework Memorandum should be introduced**. Not only will this help to improve the processes and procedures of the DPs, it should also introduce a stronger sense of mutual accountability, helping to restore a stronger level of government ownership to the overall Budget Support process. It will be important to undertake this process in a way that does not lead to significant new transaction costs, and thus it should be a speedy review process undertaken by a maximum of 3 persons and involving only an assessment of performance against the DPs' commitments in the Partnership Framework Memorandum. It should be based upon an analysis of disbursement data, the reports of the annual review processes and a narrow range of interviews with senior Government officials and DP representatives.

4) **The 12 existing Performance Tranches should be reviewed with a view to aligning their design to the assessment framework described above, and harmonising across providers so as to reduce transaction costs.** Following recommendation 1 above, a new framework for policy dialogue would be created based on a structure of sectoral and national policy targets selected by Government and then jointly monitored and discussed. In order for this framework to work, the design of existing

performance tranches would need to be reviewed and, in a number of cases, revised for consistency with GoT stated priorities and targets. The review should also serve to harmonise the designs of these schemes so as to reduce transaction costs. In order that such performance tranches should do no harm and to maximise their potential for positive incentives, it is essential that they should derive from Government objectives and targets, should be transparent in the way they are assessed and disbursed, as low in transaction costs as possible and assessed well in advance of the fiscal year to ensure predictability. The review of performance tranches should ensure that the future design fulfils each of these conditions.

5) **In order to steadily improve the evidence base for policy dialogue, an on-going programme of policy evaluation and research work should be introduced to accompany the Budget Support dialogue, generating annual results of analyses similar to that undertaken as "Step Two" of this evaluation.** There is no good reason for policy evaluation and research work to be conducted only in the context of formal independent evaluations undertaken at periodic intervals of 5 years or more. Ideally, policy research and evaluation should be continuous processes feeding directly into the review and adaptation of policies. Moreover, undertaking policy evaluation on a continuous basis would assist in improving the statistical database, in making it more readily accessible to researchers and in steadily building up the base of knowledge, regarding the most effective components of government policies. As part of the revitalisation of the policy dialogue process, we would recommend the development of a research and evaluation programme linked to Budget Support, to be undertaken by mixed teams of Tanzanian and international academics, utilising relevant quantitative and qualitative analysis, in line with a pre-defined 5 year programme of policy evaluation.

6) **The Budget Support Secretariat should be fully relocated to the External Finance Department of the Ministry of Finance.** At present, administrative and coordination responsibilities for Budget Support are shared between the External Finance Department and a group of technical assistance staff, who work for the Troika of the Budget Support Group. Partly because of the imbalance of resources between these respective groups and because the External Finance Department has a wide range of demanding responsibilities other than Budget Support, several functions which should properly speaking be the responsibility of the External Finance Department (as the beneficiary government) are undertaken by the technical assistance team of the BSG. Not only does this undermine Government ownership, it also creates confusion over where administrative responsibilities lie, adds to transaction costs, and reduces the potential for learning and capacity development within the Government team. We recommend that all administrative and coordination functions for Budget Support should be located within the External Finance Department of MoF.

7) The continuing suitability of the Troika and Troika Plus systems for coordinating the Budget Support Group should be formally assessed and a joint decision

reached on whether to retain or modify this structure. Some dissatisfaction with the Troika arrangement was expressed to the evaluation team by GoT stakeholders, who believe that the rotation of the chairmanship of the BSG generates unnecessary transaction costs, and by two of the three large Budget Support providers (DFID, EU and the WB), who expressed concerns over the extent to which their fiduciary and policy concerns could be effectively protected within the Troika arrangement. Both of these concerns are serious but, in our view, the latter especially because it may mean that these larger Budget Support providers would choose not to work through the harmonised arrangements currently existing but rather through parallel structures under their direct management. Not only would this increase transaction costs for Government, it might lead to a progressive breakdown of the Partnership Framework as a whole, undermining contributions to policy dialogue. In order to avoid such an outcome and identify the management model most suited to the Budget Support process in Tanzania, we recommend a formal review of the current Troika and Troika Plus arrangements.

8) **Technical assistance and capacity building support should be provided to Government in order to assist with the reformulation of the assessment and dialogue process, and launch the proposed evaluation and research programme.** We would recommend that a medium term technical assistance and capacity building arrangement should be put in place to cover the requirements over the next 3 to 5 years. This arrangement could potentially finance three components, although they would probably be best undertaken and managed separately: i) direct support to the External Finance Department in the management and coordination of Budget Support; ii) undertaking of the annual independent assessments of minimum eligibility conditions and of DPs' performance; and (iii) undertaking of the agreed programme of research and evaluation. The precise format for each of these components would need to be decided jointly by Government and its Budget Support partners but we recommend that they should be the subject of early discussions so as to ensure that adequate funding provision is made.

1. Introduction

1. This is the Final Report of the independent evaluation of Budget Support to Tanzania. It is submitted on behalf of the ADE Consortium by a team led by ITAD, UK in association with Fiscus Limited, UK and REPOA, Tanzania. It draws on an extensive documentary review, detailed data analysis – including econometric analysis – and a wide range of interviews and focus group discussions undertaken during field work in Dar es Salaam, in Mkinga rural district and in Morogoro municipality over September-October 2012. The Evaluation Management Committee, comprising representatives of the Government of Tanzania (GoT) and of the Budget Support Development Partners (DPs), reviewed the first and second drafts of the report[1] and comments received have been addressed, where appropriate, through corrections and additions incorporated in this, the final, version of the evalution report.

2. The evaluation forms part of a wider process of assessment of the effects of budget support at the international level[2]. It builds upon three evaluations of budget support in Mali, Tunisia and Zambia, which were completed during 2011. In common with these evaluations, the Tanzania study applied the OECD-DAC methodology for the evaluation of budget support.

1.1. Evaluation Objectives and Scope

3. **The principal objective of the evaluation was to assess to what extent Budget Support contributed to sustainable results on growth and poverty reduction.** It examined the causal linkages between General and Sector Budget Support (GBS & SBS) and changes at the outcome and impact levels, assessing the effects of the GBS/ SBS fund flows and of the related processes of policy dialogue and support to capacity development.

4. The evaluation addressed three questions, which together allowed for an assessment of the impact of GBS and SBS on growth and poverty reduction, namely:

    i. How successful have GBS and SBS been in providing the means to the Government of Tanzania to implement its national and sectoral strategies?

    ii. How successful have GBS and SBS been in facilitating improvements in the efficiency and effectiveness of these national and sectoral strategies?

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1 The 14 DPs, who provided Budget Support, were represented on the Evaluation Management Group by the evaluation departments of Danida, EuropeAid (DG DEVCO), Irish Aid and the Netherlands.

2 The most recent contribution to this international process is a cross-country study of Budget Support managed by the Netherlands Policy & Operations Evaluation Department (IOB). Its wide country scope provides a useful point of comparison to the Tanzania-specific findings presented here. See IOB, 2012.

3 The Financial Year of the Government of Tanzania runs from 1st July to 30th, June.

2 The most recent contribution to this international process is a cross-country study of Budget Support managed by the Netherlands Policy & Operations Evaluation Department (IOB). Its wide country scope provides a useful point of comparison to the Tanzania-specific findings presented here. See IOB, 2012.

4 US dollar estimates are derived from the data of the External Finance Department of the Tanzania Ministry of

iii. As a consequence, how successful have GBS and SBS been in attaining successful outcomes and impacts on growth and poverty reduction?

5. A key objective of the evaluation was to provide a forward-looking agenda. Thus, it has taken stock of the important results achieved, whilst also explicitly identifying the errors made in design and implementation, which appear to have hindered the achievement of greater results. The objective has been to draw out lessons for the future. The final chapter therefore includes recommendations relating to:

   - The improvements in the policies and practices of the DPs, which might serve to increase the impact of future Budget Support operations in Tanzania and elsewhere; and
   - The actions which might be taken by the GoT to raise the effectiveness and impact of public policy and spending actions, and thus of Budget Support.

6. In terms of scope, this is an independent evaluation undertaken on behalf of the GoT and the 14 DPs who have provided GBS or SBS over 2006-2012. In particular, the evaluation covers:

   - All GBS operations over the period 2005/06 - 2011/12, provided by the 14 Development Partners who were signatories of the January 2006 *Partnership Framework Memorandum on General Budget Support* – namely, the African Development Bank (AfDB), Canada, Denmark, the European Union (EU), Finland, Ireland, Japan, Germany, the Netherlands, Norway, Sweden, Switzerland, the UK and the World Bank (IDA).
   - The five SBS arrangements in place during this period – namely, the four Education SBS operations financed by the EU, Canada, the Netherlands and, more recently, UK DFID, and the Road Transport SBS financed by the EU.

7. Budget Support disbursements over financial years[3] 2005/06 to 2011/12 have comprised just fewer than 5,000 million US dollars[4] - an annual average disbursement of approximately US $ 690 million, some $16 per head of the Tanzanian population. Thus, Budget Support has had a major importance for Tanzania, comprising on average 14 % of public spending across the seven-year period. These figures place Tanzania amongst a select group of four countries[5] for which Budget Support has represented an annual average of over 10 % of public spending in the period 2004 -2010. Table 1 shows full details of disbursements by DP, expressed in billions of Tanzania shillings.

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3 The Financial Year of the Government of Tanzania runs from 1st July to 30th, June.

4 US dollar estimates are derived from the data of the External Finance Department of the Tanzania Ministry of Finance (MoF) on the value in Tanzania shillings of GBS & SBS disbursements. Disbursements are made in a variety of currencies and then converted, upon receipt, into Tanzanian shillings at the official BoT buying rate on the day. Table 1 shows these data expressed in billions of Tanzania shillings.

5 These are Burkina Faso, Mozambique, Rwanda, and Tanzania. (IOB, 2012)

Table 1 Budget Support Disbursements by Development Partner, 2005/06 – 2011/12

TSh. Billions (Current Prices)	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
General Budget Support							
CANADA	-	22.061	-	-	20.902	37.090	16.049
DENMARK	11.154	19.390	16.309	24.210	22.877	22.388	27.310
DFID	186.662	220.803	270.297	218.177	221.611	239.305	126.271
EU (MDG Contract)	44.288	49.729	42.335	60.313	110.415	89.982	127.847
EU (Food Crisis)	-	-	-	-	-	37.251	-
FINLAND	5.582	14.409	14.285	24.706	26.875	25.704	33.508
IRELAND	6.948	17.340	20.137	23.117	22.246	19.457	21.736
JAPAN (PRBS)	5.635	6.073	5.772	-	-	-	-
GERMANY (KfW; PRSC co-financing)	7.834	-	25.385	14.106	17.555	20.391	22.247
NETHERLANDS	14.285	48.320	52.804	54.902	-	-	-
NORWAY	17.553	43.572	50.573	49.100	55.128	60.741	72.113
SWITZERLAND	5.403	5.942	6.148	6.645	8.066	-	-
SWEDEN	29.782	55.274	63.911	69.861	66.416	64.800	87.130
NETHERLANDS	-	-	33.371	-	-	-	-
AFDB (ADF)	83.540	-	96.645	117.079	80.630	-	60.029
WORLD BANK (IDA)	173.044	266.946	245.263	189.238	476.561	173.806	154.613
JAPAN (PRSC Co-Finnacing)	-	20.476	20.164	25.605	27.933		28.677
Sub total GBS	**591.711**	**790.334**	**963.397**	**877.060**	**1,157.217**	**790.913**	**777.528**
Sector Budget Support							
CANADA (Education)	-	-	-	42.097	41.669	38.386	62.742
EU (Education)	-	-	-	21.490	15.779	-	-
DFID (Education)	-	-	-	-	-	-	76.110
EU (Roads)	-	-	-	-	-	71.031	31.011
Subtotal SBS	**-**	**-**	**-**	**63.587**	**57.448**	**109.417**	**169.863**
Total GBS & SBS	**591.711**	**790.334**	**963.397**	**940.646**	**1,214.665**	**900.330**	**947.391**

Source: External Finance Department, MoF

1.2. The historical context for Budget Support in Tanzania

8. Tanzania has been at the forefront of the shift towards programmatic modalities of aid, having initiated moves towards "Sector-Wide Approaches" in Education, Health, Agriculture and Roads over 1995-97. It was one of the first countries to establish a harmonised framework for the monitoring of "Poverty Reduction Budget Support", through the signature, by nine DPs, in October 2001 of a Memorandum of Understanding, based on a common "Performance Assessment Framework" (PAF). In November 2002, this was expanded to include the World Bank's PRSC (which had been under design), and formalised through the signature by 10 DPs

(including the World Bank) of the PRBS Partnership Framework Memorandum, the precursor of the 2006 Partnership Framework Memorandum.

9. Tanzania was also the first country to undertake an evaluation of its Budget Support, utilising an early version of the OECD-DAC methodology. This was undertaken in the second half of 2004 and published in April 2005[6]. This second evaluation – eight years later – thus allows for a direct comparison with the earlier results. In this section, we briefly review the economic, social and political changes, which have taken place in Tanzania since the 2005 evaluation, and consider their implications for this "second generation" evaluation. Table 2 below provides a summary of key economic, social and governance statistics for the period.

Table 2: Key Economic, Social & Governance Indicators for Tanzania, 2005 and 2011

<table>
<tr><th colspan="2">Indicator</th><th>2005*</th><th>2011*</th></tr>
<tr><td colspan="2">GNP per Capita, Atlas Method (current USA $) [a]</td><td>380</td><td>540</td></tr>
<tr><td colspan="2">Population, million [a]</td><td>38.8</td><td>46.2</td></tr>
<tr><td colspan="2">% Population living below National poverty Line (most recent survey)[b]</td><td>35.7%</td><td>33.4%</td></tr>
<tr><td colspan="2">Life Expectancy at Birth [b]</td><td>51.0</td><td>58.2 (2010)</td></tr>
<tr><td colspan="2">HDI (Score)</td><td>0.420</td><td>0.466</td></tr>
<tr><td colspan="2">HDI (Ranking)</td><td>159</td><td>152</td></tr>
<tr><td colspan="2">Literacy Rate [a]</td><td colspan="2">73 % (2010)</td></tr>
<tr><td colspan="2">Gini Coefficient [b]</td><td colspan="2">37.6 (2010)</td></tr>
<tr><td colspan="2">Annual Population Growth Rate [b]</td><td colspan="2">2.03 % (2010)</td></tr>
<tr><td colspan="2">Average Annual ODA Disbursements 2002-2009, constant 2008 US $ billion [c]</td><td colspan="2">1.17</td></tr>
<tr><td colspan="2">Average Annual ODA Disbursements p.c. 2002-2009, constant 2008 US $ [a,c]</td><td colspan="2">59.33</td></tr>
<tr><td rowspan="2">Political Openness 2005 & 2011 [d] (indication of the general state of freedom in a country)</td><td>Political Rights (1= high freedom; 7= low)[1]</td><td>4</td><td>3</td></tr>
<tr><td>Civil Liberties (1= high freedom; 7= low)[2]</td><td>3</td><td>3</td></tr>
<tr><td colspan="2">Corruption Perceptions Index Score (0 = highly corrupt; 10 = no corruption)[3] [e]</td><td>2.9</td><td>3</td></tr>
</table>

* Not all indicators were available for 2005 and 2011, in which case the most proximate year has been used. The details of sources below show the actual years for which indicators are presented.

Sources: [a] World Development Indicators 2011; [b] Human Development Report 2007/08 & 2011; [c] OECD DAC Database, accessed 10/1/12; [d] Freedom In the World 2010, Freedom House; [e] Corruption Perceptions Index 2010, Transparency International.

Notes: [1] The ratings process is based on a checklist of 10 political rights questions. Scores are awarded to each of these questions from which a rating of 1 to 7 is derived, with 1 representing the highest and 7 the lowest level of freedom.
[2] The ratings process is based on a checklist of 15 civil rights questions. Again, a rating of 1 to 7 is derived, with 1 representing the highest and 7 the lowest level of freedom.
[3] The CPI measures the degree to which public sector corruption is perceived to exist within a country on a scale of 0 (highly corrupt) to 10 (very clean).

Growth and Poverty reduction

10. Over the past decade, Tanzania has experienced some of the highest growth rates in Sub-Saharan Africa. For the first time since independence, it has broken out of the cycle of short-lived accelerations in growth that characterised many low-income countries, and has enjoyed strong uninterrupted growth since the mid-1990s. Real annual GDP growth has increased from below 4% in the early 1990s to an annual average of around 7% during the 2000s (MoF, 2011).

[6] Daima Associates & ODI, (April, 2005), *Joint evaluation of Budget Support to Tanzania, 1995–2004,* London and Dar es Salaam.

11. Tanzania's growth take-off was spurred by several key factors, including the significant structural changes made since the early 1990s as the basic institutions of a market economy were introduced — a private banking system, the unification of the exchange rate, and price liberalisation. Trade liberalisation, foreign exchange, financial sector, tax and investment reforms all served to make the economy more market oriented, expanding the role of the private sector in the economy and establishing its position as the engine of economic growth. However, it is notable that while the growth 'dividends' have been witnessed right up to 2012, the probable policy determinants were put in place well before the evaluation period.

12. The impressive growth performance has not unfortunately translated into a corresponding rate of poverty reduction. The 2007 Household Budget Survey (HBS) found that the proportion of people living in poverty decreased from 35.7% of the population in 2001 to 33.4% in 2007. The evaluation has sought to explain this apparent anomaly, and to consider the relationship to public policy decisions. The disappointing results of the 2007 Household Budget Survey were reported by several stakeholders to have had a significant negative effect on the perception of the benefits of Budget Support and, as a consequence, on the quality of policy dialogue within the Budget Support framework.

13. Whilst income poverty has not declined significantly in the past decade, several non-income measures of poverty have shown improvements:

- From 2000 to 2007, Tanzania's Human Development Index increased from 0.364 to 0.466. There were particularly strong achievements in education and health.
- Since 2003, HIV prevalence in adults (15-49 years) has declined in both males and females, across most age groups.
- The incidence of malaria, which has accounted for the largest burden of morbidity and mortality in Tanzania, especially among young children, has substantially improved with the introduction of insecticide-treated nets.
- There has been progress in the reduction of under five and infant (under one year) mortality and Tanzania is now on track to meet the fourth Millennium Development Goal (MDG).

14. Undoubtedly, significant increases in public consumption – supported by Budget Support flows – have been a major contributor to these improvements in non-income measures of poverty. In particular, government spending on education has increased fourfold since 2000, permitting an increase by 40 % in the number of teachers and by 33% in the number of schools, with four million more children in primary school and 1.2 million more in secondary schools. The causal relationship between Budget Support and these changes in non-income poverty has therefore been a further focus of the evaluation.

The Political and Governance context

15. The Intervention Logic underlying our evaluation framework (discussed below) includes flow of funds effects, as well as externally-driven institutional effects – deriving from Budget Support

policy dialogue and from Budget Support-related technical assistance, and internally-driven institutional effects. Regarding the latter, the Intervention Logic postulates that Budget Support may positively influence the institutional framework for public policy and public spending by focusing attention on national budgetary processes and eliminating inefficiencies arising from transaction costs and aid-induced resource misallocations.

16. Clearly, a 'core' level of institutional capability is needed if these relatively subtle effects are to have a significant impact. In the first place, a strong central nexus is needed between the Parliament and the Executive, between the Ministry of Finance (MoF) and the sector ministries, and between sector ministries and service delivery units. The 2005 evaluation identified the strength of this nexus in Tanzania as a key determinant of the success of Budget Support up to that time. However, this nexus is embedded within a wider framework of democratic accountability, whose vitality will be a key determinant of how effectively the budget is managed and the Executive is called upon to account for its results. What can we say about the nature of democratic accountability within this evaluation period as compared with the previous evaluation period?

17. Tanzania has witnessed remarkable political stability. The present ruling party in Tanzania, the CCM[7] (and its predecessor, the Tanzania African National Union), has been in power since the country's independence in 1961, longer than any other political party on the continent (Therkildsen, 2012). Competitive multiparty elections were introduced in 1994 ("grassroots elections")[8] and in 1995 for Presidential, Parliamentary and Local Government Council positions. During the first national elections in 1995, won by President Mkapa, the opposition – led by the charismatic and popular, Augustine Mrema, managed to gain almost 40% of the votes. However, the popularity of the CCM party increased steadily throughout the tenure of President Mkapa, winning 71 % of the presidential vote in 2000, and 80 % in 2005, when President Kikwete was elected. This led many observers to dismiss the potential of the opposition, which, in spite of a few committed leaders, showed limited organisational capacity during the 2005 elections.

18. However, during the 2010 election, the opposition almost doubled its share of the votes. Hence, although President Jakaya Kikwete was sworn in for another five-year term on November 6th 2011, he took his office with a reduced mandate of 62% of the vote. As a consequence both of this electoral result and of the expansion of the media – particularly new, internet-based media - the opposition has become stronger and more vocal throughout the evaluation period.

19. In principle, a stronger opposition should stimulate stronger accountability of the Executive, but opposition and media pressure can also compromise the quality of decision-making. The perceived "room for manoeuvre" for the Executive in responding to political pressure will have been a key influence on the quality of public policy and public spending decisions during the evaluation period, and it seems clear that this has shrunk.

7 Chama Cha Mapinduzi (Party of the Revolution in Swahili).

8 Elections for lowest levels of the local governments: the village councils, the *vitiongoji* and *mitaa*.

20. The Executive has certainly worked under closer scrutiny from the Parliamentary committees and from the media than it did in the pre-2005 period. In addition, the Kikwete government was unfortunate in having "inherited" two big corruption cases, which had their origins during the previous administration but were not uncovered until after 2005 – namely, the EPA (External Payments Account) scandal, involving fraudulent payments of external debt from the Bank of Tanzania and the British Aerospace (BAE) air traffic radar case. There has also been a further grand corruption case, which more directly involved members of the Kikwete government - the Richmond power scandal. These cases were all widely covered in the media and the Richmond scandal was the subject of a Parliamentary Select Committee investigation. The latter led to the resignation of the Prime Minister, Edward Lowassa, and two other Ministers in February 2008 while the Governor of the Bank of Tanzania (BoT); Mr Balali was sacked one month earlier because of the EPA scandal.

21. Although corrective actions were taken in response to these corruption cases, they certainly led to increased pressure from the media, the opposition and from the DPs. Indeed, the relevant Government and DP stakeholders interviewed by the evaluation team all agreed that the quality of the Budget Support partnership and, with it, of policy dialogue deteriorated substantially in the wake of these corruption scandals, and never fully recovered, despite the publication of a relatively positive subsequent assessment of the corruption situation[9].

22. The relative shift in European opinion at public and official levels regarding the effectiveness of Budget Support has also represented an important change in the context for Budget Support in Tanzania in the evaluation period. This is evidenced in the international withdrawal from budget support operations by the Netherlands, and also in the explicit changes in policies introduced by the European Commission, Sida, the State Secretariat for Economic Affairs of Switzerland (SECO) and most recently the Department for International Development (DFID)[10]. These changes in official policies have promoted more rigorous assessments of the fiduciary risks of budget support and attempts to develop more explicit links between disbursement modalities and the results of Budget Support. Neither of these developments need have been problematic for the implementation of Budget Support in Tanzania, if they had not been accompanied by more short-termism, greater risk aversion and increasingly "knee jerk" reactions to unfavourable events, such as the corruption scandals and the disappointing household budget survey results. All GoT and many DP resource persons interviewed during the evaluation agreed that the post 2007 period saw increased evidence of these phenomena within the Tanzanian Budget Support process.

9 The GBS partners commissioned in 2011 a study of corruption trends to inform the GBS dialogue (Clausen et al, 2011). The report documented progress in Government efforts for curbing and prosecution of corruption and concluded: "While grand corruption is by many studies assumed to have increased over the years, there is limited empirical evidence to support this assumption".

10 New policy statements on Budget Support have been produced by each of these agencies since 2008. The broader shift in the "fashion" for Budget Support is also well documented in IOB (2012) and in Tavakoli & Hedger (2011).

Implications for the evaluation

23. Any evaluation of an aid intervention mechanism must consider both the quality and relative efficiency of the mechanism itself and the nature of its interaction with the operating context. The outcomes of Budget Support are the consequence of the combination of the mechanism and the context[11]. The first evaluation of Budget Support in Tanzania, which covered the period 1995 – 2004, saw this new mechanism operating in a relatively favourable context. By comparison, the period here evaluated – 2006-2012, presented a significantly more challenging context in, at least, three respects[12]:

- The public policy agenda – comprising second rather than first generation reforms - was more technically and politically demanding. Attention had to focus not just on the attainment of growth, the initiation of reforms, and the expansion of service coverage but also on the stimulation of poverty reduction, the implementation and "roll-out" of reforms, and the achievement of equitable and sustainable social welfare outcomes.
- The political environment has been more challenging with more pressure on the Executive from the opposition and the media, and with three major corruption scandals having to be addressed[13].
- Relations between the Government and the Budget Support providers have been strained virtually throughout the period (and in particular between 2007 and 2011), with consequent negative effects on the quality of policy dialogue. This has been partly a result of these corruption scandals and the disappointing poverty results in the 2007 HBS, but also a consequence of the increasing scepticism towards Budget Support, manifested in many European countries during the period.

1.3. Evaluation Framework & Process

24. **The evaluation has followed the "three-step" methodology, which has been established by the OECD-DAC's evaluation network for the evaluation of Budget Support**. This methodology is described in the Issue Paper, referenced within the terms of

11 See Pawson and Tilley (1997) and Pawson (2008) for a fuller exposition of this argument, which underlies the 'realist' approach to the synthesis of evaluation results.

12 The need to respond to the global financial crisis which broke in 2008 might also be mentioned here but, interestingly, the economic impact was less than expected and the policy response relatively swift and decisive. (See Sections 3.1 and 4.1.)

13 By comparison, no major corruption scandals 'hit the press' during the Mkapa presidency, even though the BAE and the EPA scandals originated during his presidency. There were, however, two ministerial resignations due to allegations of corruption – that of Professor Simon Mbilinyi, Minister of Finance in 1996 over the granting of discretionary tax exemptions, and of Iddi Simba, Minister of Industry & Commerce in 2001 over the issue of sugar import licences.

reference[14], and also presented in more detail in the Inception Report for this evaluation (July, 2012).

The Intervention Logic

25. The Issue Paper proposes an Intervention Logic, in which the outputs, outcomes and impacts of Budget Support are generated via the policies, budgetary measures and institutional actions implemented by the recipient government, as a consequence of Budget Support:

'…Budget Support is not a development programme per se, but an aid modality that supports the development strategy of the beneficiary government. …..it produces a number of direct or immediate outputs, which, under certain conditions, contribute to changes in government policies and government budgets. The changes thus induced in government outputs should, in turn, contribute to development outcomes and impacts'. (Issue Paper, p.11)

26. The Intervention Logic is thus based on a set of structured relationships at five levels as follows:
    - **Level One,** which assesses the **Inputs** of GBS and SBS, including policy dialogue and capacity-building inputs as well as fund flows.
    - **Level Two,** which details the **Direct Outputs** generated by the interaction of budget support with other aid modalities.
    - **Level Three,** which documents the **Induced Outputs** produced by Government as a consequence of the interaction of budget support (in complement with other modalities) with the national policy, budgetary and service delivery processes.
    - **Level Four,** which records the **Outcomes** of Government policies and spending actions, in terms of changes in the utilisation of public services by the public and changes in private sector behaviour (such as investment) due to government regulatory actions. At this level, government actions are interacting with wider social and economic forces.
    - **Level Five,** which records the wider **Impacts** of these processes, in terms of societal and economic processes, notably increased economic growth, reduced income poverty, and diminished non-income poverty (reduced social exclusion, improved education, health and social welfare).

Adapting the Intervention Logic to the Tanzanian context

27. The standardised Intervention Logic, as presented in the "Issue Paper", is applicable to all budget support operations. However, for any country, it is likely to be necessary to make adjustments in order to reflect the scale of budget support operations, the mix of inputs provided, and the sectors and thematic areas targeted. In the case of the Tanzania evaluation, consideration of these factors led to the following adjustments:
    - **The scale of Budget Support operations**, in terms of the value of funding flows, is relevant in determining the type of induced outputs, outcomes and impacts, which it is

[14] Caputo, E., A. Lawson and M. van der Linde (2008), *Methodology for evaluation of Budget Support operations at country level: Issue Paper*, DRN-ADE-ECO-NCG-Ecorys.

appropriate to consider. In the case of Tanzania, where budget support has comprised on average 14% of public spending, and over 30% of Official Development Assistance (ODA), it is clear that, from the perspective of its scale, all of the postulated Induced Outputs, Outcomes and Impacts are relevant.

- **The mix of inputs provided by Budget Support** refers to the presence or absence of policy dialogue and capacity-building inputs (alongside funding flows) and the relative balance between these inputs. For example, some budget support operations – such as emergency balance of payments support operations – involve only very limited engagement in policy dialogue. In Tanzania, policy dialogue is of considerable significance. The scope of capacity-building inputs included within the financing arrangements for Budget Support, or in other ways linked to these operations, is modest but still present and relevant as an input.
- **The sectors and thematic areas targeted by Budget Support** were defined firstly by the sectoral focus of MKUKUTA, secondly by the scale of budget funding for each sector, thirdly by the choice of sectors within SBS operations, and fourthly by the focus of dialogue for GBS. Funding flows were examined for six sectors which comprise the ‘priority sectors' within MKUKUTA, namely Agriculture, Education, Energy, Health, Roads and Water & Sanitation. In assessing the likely contribution of GBS flows to the financing of these sectors (in Section 3.3), we found that overwhelmingly it has been education and roads which have most benefited from GBS funding. Moreover, theses are the two sectors directly targeted by the SBS operations in Tanzania, and are also the more prominent sectors within the GBS policy dialogue. The sectoral analysis of the evaluation has therefore concentrated on these sectors. In addition, GBS operations give considerable attention to reform of Public Finance Management (PFM), to governance reform, to Local Government reform and decentralisation, as well as to the improvement of the Business Environment. The Intervention Logic thus included Evaluation Questions (EQs), which gave space to the analysis of these two sectors and these four themes, examining the influence of dialogue and capacity building as well as funding flows.
- **The focus of analysis in Step Two of the methodology** was determined by reference to MKUKUTA, to the focus of debates within Budget Support dialogue and the relative weight of budgetary funding directed to different outcomes. Thus, outcomes and impacts in three key areas were identified and their significance assessed: (i) Economic growth; (ii) The reduction of income poverty and inequality; (iii) The reduction of non-income poverty, with special attention to the coverage, the quality and the equity in provision of primary and secondary education. A qualitative and quantitative analysis of these Outcomes and Impacts was undertaken in order to identify their primary determinants. This sought to identify the cause of changes, considering the possible role of Government policies and spending actions, as well as other socio-economic factors, both domestic and international. This included a detailed econometric analysis of the relationships between government outputs and sector outcomes for primary and secondary education.

Box 1: The Evaluation Questions (as proposed in Inception Report)

Independent Evaluation of Budget Support to Tanzania: Evaluation Questions

Step One

EQ. 1.1: Which Budget Support inputs were provided? To what extent were they consistent with the inputs envisaged in the Budget Support agreements, and related capacity building arrangements, and were they delivered in a manner consistent with the agreements reached in the Partnership Framework Memorandum of 2006?

EQ 1.2: Have the Budget Support operations been relevant to the strategies and development goals of the Government and its Development Partners and has the balance of inputs and the approach to implementation been appropriate to the economic and institutional context?

EQ 2.1: To what extent has Budget Support contributed to increasing the value and the proportion of external funds managed through the national budget process? How far has this contributed in turn to increasing the overall predictability of external resource funding for government activities?

EQ 2.2: To what extent has Budget Support contributed to sustainable improvements in the processes and methods of policy dialogue, in terms of institutionalising frameworks, which involve relevant stakeholders, focus on strategy and results, and utilise evidence to draw policy conclusions?

EQ 2.3: To what extent has Budget Support contributed to increased alignment and harmonisation of external aid as a whole and to the reduction of transaction costs per unit of aid provided?

EQ 3.1: To what extent have there been improvements in the effectiveness of domestic revenue mobilisation and in the quality of macroeconomic management? How far can these improvements be attributed to Budget Support?

EQ 3.2: To what extent have there been improvements in the quality of Public Finance Management (PFM)? How far can these improvements be attributed to Budget Support?

EQ 3.3: To what extent have there been changes in sector policies and in public expenditure allocations and with what consequences for the composition of outputs? How far can these changes be attributed to Budget Support?

EQ 3.4: To what extent have there been improvements in the quality of governance and accountability, particularly with regard to the roles of Parliament, Civil Society, Local Government Councils, the Supreme Audit Institution and the Anti-Corruption agencies as “watch-dogs” of the Executive? How far can these improvements be attributed to Budget Support?

EQ 3.5: To what extent have there been improvements in the quality of those public administration systems, most relevant to local service delivery? How far can these improvements be attributed to Budget Support?

Independent Evaluation of Budget Support to Tanzania: Evaluation Questions (continued)

Step Two

EQ 4.1: How has the economy performed in terms of levels of investment and growth and what has been the effect on household income and on income distribution, especially for the poor? What factors have been the main determinants of such changes?

EQ 4.2: How have the key outcome and impact indicators evolved in primary and secondary education in aggregate, by gender and by district? What factors have been the main determinants of the changes identified?

EQ 4.3: How have the prices of food crops, and the inter-regional disparities in these prices, evolved over the evaluation period? What were the determining factors of these evolutions and to what extent were the Government investments in agricultural inputs, notably fertiliser, and the investments in the rehabilitation and improved maintenance of roads among those factors?
[NB. Evaluation Question not addressed due to data limitations.]

Step Three

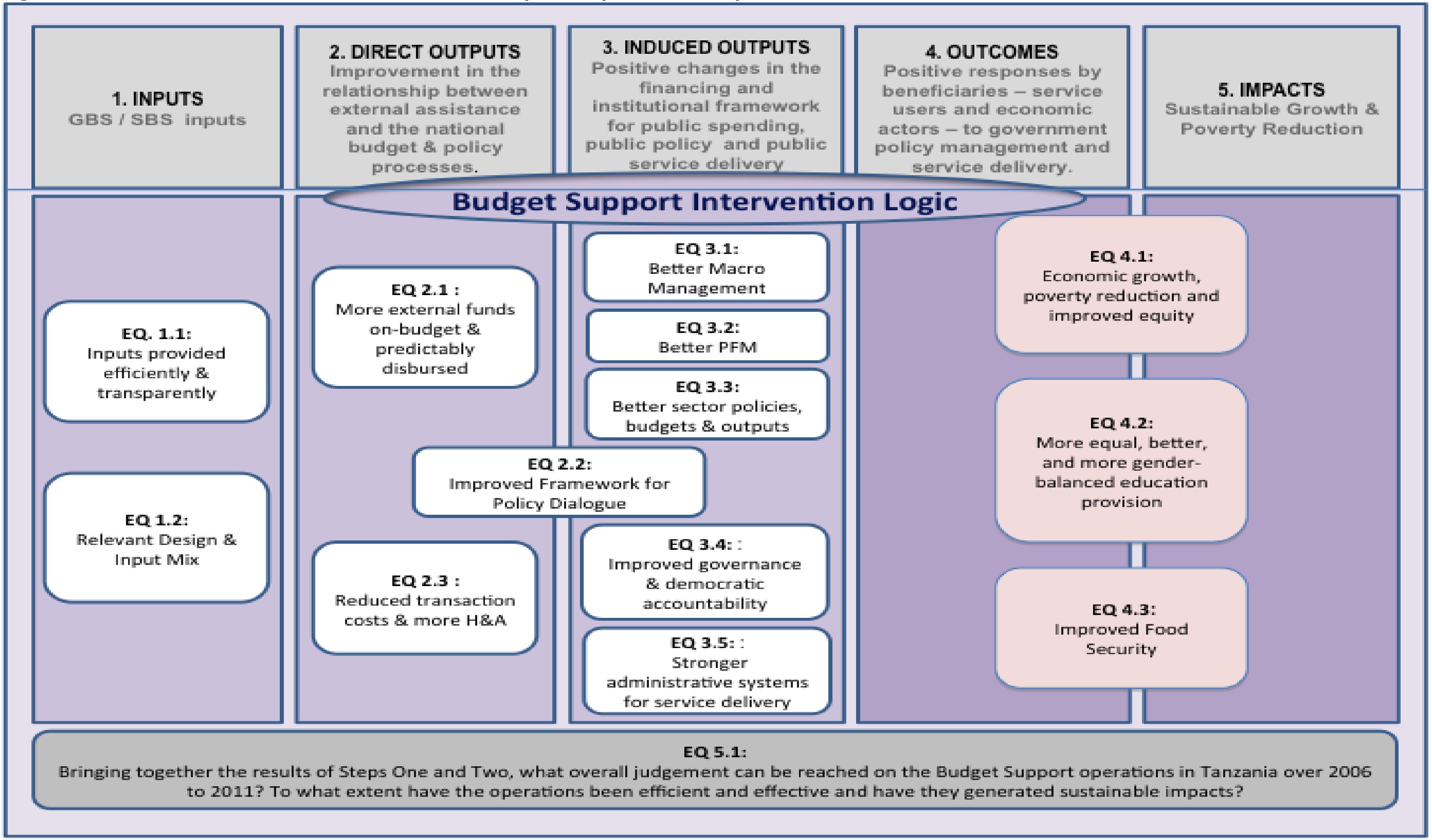
EQ 5.1: Bringing together the results of Steps One and Two, what overall judgement can be reached on the Budget Support operations in Tanzania over 2006 to 2011? To what extent have the operations been effective and have they generated sustainable impacts?

28. The EQs are presented in the Text Box above and in diagrammatic form in Figure 1. Volume Two presents summary answers and data sources for each of the Judgement Criteria, which were utilised to address these questions. It also provides a four-way classification of the evidence, explained in Table 3 below.

Table 3: Criteria for ranking of quality of Evidence for each Evaluation Question

Ranking of Evidence	Explanation of ranking of quality of evidence
Strong	The finding is consistently supported by a full range of evidence sources, including documentary sources, quantitative analysis and qualitative evidence (i.e. there is very good triangulation); or the evidence sources, while not comprehensive, are of high quality and reliable to draw a conclusion (e.g. strong quantitative evidence with adequate sample sizes and no major data quality or reliability issues; or a wide range of reliable qualitative sources, across which there is good triangulation).
More than satisfactory	There are at least two different sources of evidence with good triangulation, but the coverage of the evidence is not complete.
Indicative but not conclusive	There is only one evidence source of good quality, and no triangulation with other sources of evidence.
Weak	There is no triangulation and/ or evidence is limited to a single source.

Figure 1: The 14 Evaluation Questions defined in the Inception Report and their place within the Evaluation Framework



Overview of the Application of the three-Step Approach

29. The methodology involved a three-step analysis, which is described in the Issue Paper (Caputo et al, 2008) and summarised in the Terms of Reference. We here outline the scope of the analysis applied in each "step". Table 4 below provides further detail on the evaluation techniques applied in Steps One and Two, and describes the methodological challenges they presented.

Step One: Assessment of Inputs, Direct Outputs and Induced Outputs

30. Step One included three types of analysis each linked to a different level of the IL:

- Firstly, an analysis of the Inputs provided by Budget Support under Level One, assessing also their relevance to the national and sectoral strategies, to the DP's strategies and to the underlying political, economic and institutional context.
- Secondly, an assessment of the Direct Outputs under Level Two, related to the immediate effect of Budget Support (alongside other modalities) upon the overall structure of aid provided to Government.
- Thirdly, an analysis of the Induced Outputs under Level Three, which examined the changes evidenced in the financing and institutional framework for public spending, public policy, and service delivery and assessed how far these might be attributed to Budget Support, either on its own or in complement to other modalities. It considered the changes in the overall macroeconomic and fiscal position of Government, the evolving status of PFM systems, the evolution in the sectoral composition of public spending, changes in the institutions of accountability and in the participation of citizens and Parliamentarians in the budgetary process, and changes in the public administration systems linked to the delivery of services.

31. The analysis of Step One provided the basis for understanding how Budget Support has been inserted into the public spending and policy making process and with what effects, given the influence of other aid modalities and other internal government processes.

Step Two: Assessment of Outcomes and Impacts

32. Step Two involved two types of analysis:

- Firstly, the Outcomes and Impacts related to the implementation of the Government's policies and strategies in three key areas were identified and their significance assessed:
  - Economic growth;
  - The reduction of income poverty and inequality;
  - The reduction of non-income poverty, with special attention to the coverage, the quality and the equity in provision of primary and secondary education.
- Secondly, a qualitative and quantitative analysis of these Outcomes and Impacts was undertaken in order to identify their primary determinants. The purpose was to identify the cause of changes, considering the possible role of Government policies and spending actions (including the Induced Outputs previously identified), as well as other socio-economic

factors, both domestic and international. This included an econometric analysis of government outputs and sector outcomes for primary and secondary education.

33. As part of the Step Two analysis, it was originally planned to undertake an econometric analysis of the impacts of input subsidies and of improvements in road quality on the price of maize, assessing whether price rises had been dampened and inter-regional disparities reduced, with consequent positive effects on food security. Unfortunately, it did not prove possible to complete this analysis for two reasons: firstly, a consistent and reliable data series on maize production by district or region was not available, and secondly the data available on the state of road maintenance by region covered only the period 2007 to 2011, which was too short a period to provide sufficient variation over time or across geographical regions to generate statistically significant results when regressed against food prices.

Step Three: Synthesis and Determination of contribution of Budget Support

34. Step Three of the methodology brought together the findings from Steps One and Two, synthesising their implications for the assessment of the contribution to final outcomes and impacts, which can be attributed to Budget Support. It involved two stages:

- First, the results of Steps One and Two were synthesised in tabular format, so as to show which Government Outputs had been significant determinants of final Outcomes and Impacts, and which of those Outputs had been identified as having been, to some extent induced by Budget Support. This table allowed for a simple read-through of the results from Step Two back to Step One, so as to identify where Budget Support was contributing.
- Second, the degree of contribution of Budget Support to Induced Outputs and of Government Outputs to Outcomes/ Impacts was ranked according to a simple scale (Important/ Moderate/ Weak/ Absent) drawing on the more detailed results of the analysis in Steps One and Two.

1.4. Methodological challenges and their implications

Table 4: Evaluation techniques for Steps One & Two and related Methodological Challenges

Stage of Evaluation & Key Elements Required	Analytical / Evaluation Process Applied	Methodological Challenges Experienced
<u>**Step One, Levels 1 & 2:**</u>		
Analysis of Inputs & their relevance	Document review: GBS/ SBS agreements, Annual Reviews, relevant evaluations, JAST	*Timely receipt of all agreements proved difficult with 14 DPs but all Annual Review docs & relevant evaluation reports received.*
Size & share of aid subject to Budget	Compilation of Aid data-base by modality, on-budget vs. off-budget	*MoF & OECD-DAC data-bases were not consistent; MOF data generated through Aid Management Platform (AMP) had gaps but proved adequate for an aggregate analysis*

Stage of Evaluation & Key Elements Required	Analytical / Evaluation Process Applied	Methodological Challenges Experienced
Predictability of Budget Support & other Aid	Analysis of MoF data on planned & actual disbursements;	*Data on planned & actual disbursements by Quarter was available only for GBS/ SBS. Annual data available for all modalities in AMP, but with some gaps.*
Harmonisation & Alignment	Review of Aid effectiveness documents (especially Paris Declaration monitoring); Mini case studies in six sectors; Interviews with DPs and Government staff.	*Perceptions of harmonisation & alignment tend to be subjective: triangulation only proved possible at aggregate level, not for sectors: hence, mini case studies inconclusive.*
Step One, Level 3:		
Evolution of Macro & Fiscal situation.	Analysis of BoT, IMF & MoF data & follow up interviews; Review of relevant documents.	*Some inconsistencies between 3 data sets but not critical. Documentation was comprehensive, and interviews extensive.*
Evolution of PFM	Analysis of PFMRP documents, PEFA reports, CAG's reports & evaluations; Interviews with relevant GoT & DP staff.	*Most recent PEFA report was based on 2009 data, so no recent assessment available. Other documents were comprehensive in their coverage.*
Evolution of Policy structures & processes (Also covered dialogue issues at Level 2.)	Detailed analysis of PAF & Annual Review reports; Detailed analysis of Sector Reviews for Education and Transport + sector interviews. Focus Group with DPs; Focus Group with senior GoT staff.	*PAF analysis proved very revealing; and findings at the aggregate level were supported by Focus Groups. Analysis of sector dialogue for Education & Transport complemented findings on aggregate policy dialogue.*
Evolving composition of public spending	Development of Database on actual public spending by Central & Local Government for 2005/06 – 2011/12, and analysis of trends.	*Data obtained from Accountant General's Department was incomplete and not fully consistent with other sources. As a consequence, the analysis of trends was less detailed than planned.*
Accountability: citizens & institutions	Document review on Governance & Democratic Accountability; Interviews with Parliament & accountability institutions; Civil Society Focus Group.	*Interviews with Parliamentarians did not prove possible – only with Clerk to Public Accounts Committee but other interviews & focus group completed and extensive documentation was available.*
Public Administration systems for service delivery	Analysis of transfers to LGAs for consistency with formulae and with criteria of equity/ efficiency; Document review & interviews.	*Budget Dept. provided data on releases to LGAs by sector. By combining this with data from PMO-RALG, a simple analysis of trends proved possible.*

Stage of Evaluation & Key Elements Required	Analytical / Evaluation Process Applied	Methodological Challenges Experienced
<u>Step Two</u>		
Analysis of growth outcomes & their causes	Document review: Tanzania Growth Diagnostic, IGC reports, Interviews with MOF, BoT, IMF, WB, etc.; Private Sector Focus Group; Qualitative analysis of GDP & investment data	*Good data available at macro level which has been well analysed by different authors/ institutions. High quality interviews were made but Private Sector Focus Group yielded little material because it did not prove possible to attract prominent businessmen or senior staff of the TCCIA.*
Analysis of poverty & inequality outcomes & their causes	Document review: MKUKUTA evaluation, Poverty & HD Report, etc.; Qualitative analysis of Poverty Data.	*Extensive documentation available as well as the 2007 Household Budget Survey and a subsequent panel data survey covering 2007-2011.*
Analysis of Output to Outcome/ Impact relationships for Primary & Secondary Education	Econometric analysis of primary & secondary education, based on district/ school level data for 2008 & 2011 from BEST, corresponding exam data from NECTA and proxy socio-economic indicators by district from 2010 DHS; Complementary field-work/ local-level interviews in Mkinga Rural district (Tanga) and Morogoro municipality.	*Matching of three databases (BEST, NECTA and DHS) proved difficult because of differences in coding structures but was finally completed and robust results were produced. Fieldwork interviews also proved fruitful and generated useful complementary information.*
Analysis of Output to Outcome/ Impact relationships for Agriculture & Roads	Econometric analysis of maize prices by region, and corresponding change in state of roads 2006 to 2011. Complementary interviews with sector ministries & agencies.	*No adequate district or regional data on maize production because reliable statistics at this level not available. Given the shortness of the period, road quality data showed insufficient variation either over time or over regions to generate statistically significant results. Thus, analysis proved inconclusive.*

35. Table 4 above summarises the methodological and practical challenges experienced in applying the planned evaluation framework. There were also limitations imposed in advance upon the scope of analysis as a consequence of the known data limitations and budgetary restrictions. Here, we review these limitations and their significance for the overall findings of the evaluation.

The scope of the evaluation: Mainland Tanzania, not Zanzibar

36. The first significant limitation in the coverage of the evaluation is that it did not include Zanzibar. It was agreed during the Inception phase that, in the light of the available budget, an exclusive focus on Mainland Tanzania would be appropriate. On the other hand, the United Republic of Tanzania is constitutionally obliged to transfer 4.5 per cent of external loans and grants to the Government of Zanzibar and, *ipso facto*, an equivalent proportion of Budget Support grants are allocated and spent by the Government of Zanzibar.

37. Given the time and resources available, we consider that this restriction in the scope was

sensible. For purposes of public policy and public finance management, Zanzibar operates as a separate country, with its own institutional structures. Hence, it would have constituted a country case study in its own right, requiring an almost equivalent amount of evaluation effort. With a population of 1.5 million, 3 % of the total population of Tanzania, and Budget Support funding flows of 4.5 % of Budget Support grants, this would clearly not have been justified.

Limitations in Data Quality

38. The evaluation did not include any time or resources for survey work or for large–scale primary data collection (beyond Focus Group discussions and stakeholder interviews), and therefore had to rely on official statistics and existing survey data. These proved sufficient to answer all but one of the EQs[15]. On the other hand, there are a number of important deficiencies in the quality of data, which have limited the depth and breadth of analysis:

- The most serious deficiency we have encountered is in the quality of financial reporting on public spending. The evaluation team had hoped to assemble a database of spending to cover the full seven-year period, showing spending classified by the normal administrative classifications of the central government (namely Ministries, Departments & Agencies (MDAs), Regions and Local Government Authorities (LGAs)) and according to recurrent spending on Personal Emoluments (PE) and Other Charges (OC) and development spending from internal and external resources. Despite the assistance provided by the Accountant General's Department (AGD), and the Budget and External Finance Departments of MoF, it was not possible to assemble a comprehensive database of this kind. Three types of deficiencies seem to lie at the heart of this problem: a) the quality of data archiving is poor in that reporting is geared towards annual accounts, with little attention given to the maintenance of historical records in a complete and standardised form; b) the compilation of expenditure reports and annual accounts is complicated by the fact that four different types of systems are used for budget execution, namely the Central Government's IFMIS system (through which the majority of MDAs execute their budgets), a separate set of off-network systems for the 'sensitive' votes (notably, the Ministry of Defence and the State House), a different system for authorisation of releases of grants to LGAs (with accounts subsequently compiled at the LGA level), and a further set of decentralised accounting systems for the management and accounting of spending by Executive Agencies, such as TANROADS; c) there are significant corrections made in between quarterly Budget Expenditure Reports, the "appropriation accounts" released at the end of the financial year by the AGD, and the final audited accounts. By combining the data obtained from the AGD and the Budget Department, with information presented by the Prime Ministers Office - Regional Administration and Local Government (PMO-RALG) on releases to LGAs and comparing this with aggregate data by sector presented in the World Bank's annual Rapid Budget

15 As we have noted above, it did not prove possible to answer EQ 4.3 regarding the relative effects on food crop prices of public investments in agricultural inputs and in the rehabilitation and maintenance of roads.

Analyses, the evaluation team were able to construct a basic analysis of the sectoral composition of spending over the seven-year period, which proved sufficient to draw our principal conclusions.

- The range of administrative data on sector outputs and outcomes, related to service utilisation, for example, is also surprisingly limited. As a consequence, any detailed analysis of the efficiency and effectiveness of public spending outside of the education, health and roads sectors is virtually impossible. Within these three sectors, the quality of data collection, compilation and reporting is relatively strong, especially within the education sector, where a detailed econometric analysis of outputs and outcomes has been undertaken and the health sector, where a similar sort of analysis would have been possible.
- Finally, gaps remain in the recording of external assistance flows to Tanzania. An "Aid Management Platform" (AMP) has been established by the External Finance Department of MoF, with the support of the DPs, and this has significantly improved the quality of data on aid flows since the 2005 Budget Support evaluation. On the other hand, there remain gaps in relation to project spending, regarding both projected and actual disbursements. As a result, reported project spending by sector is subject to a significant degree of error. However, for the purposes of the evaluation, the data available from the AMP showed sufficient coherence over time and sufficient consistency with alternative sources (such as the BoT's Balance of Payments data) to be confident about the orders of magnitude of overall flows, and of the disbursements across the three modalities over time.

39. By way of balance, it is important to draw attention to the improvements in the quality of national survey data, which have been achieved over the past few years, under the leadership of the National Bureau of Statistics. National Income Accounts have been re-based and generate a consistent series on Gross Domestic Product (GDP) and its principal sectoral components. A robust methodology for five-yearly Demographic & Health Surveys is in place. The 2007 National HBS has been complemented by a series of panel data surveys over 2008 to 2011, and fieldwork for the 2012 population census has been completed. Together these and other survey instruments provide a sound base of information on national socio-economic characteristics, fulfilling most requirements for the demand-side information necessary to permit econometric analysis of the causal relationships between the outputs and outcomes of public spending. Thus, it is not the quality of survey data, which is restricting the scope for analysis of efficiency and effectiveness of public spending but rather the quality of administrative data on outputs and outcomes.

Limitations in the coverage of consultations and interviews

40. Table 4 above provides information on the unplanned gaps in the coverage of consultations. There were also some "planned" gaps in consultations, reflecting the decisions taken in terms of the prioritisation of time available to the evaluation team. With more time available, the

triangulation of information sources would have been strengthened through additional consultations with the following groups:

- A wider range of sector ministries;
- More senior, more experienced private sector representatives; and
- Parliamentarians – in particular the members of the Public Accounts and other committees[16].

Implications of these limitations for the evaluation conclusions

41. Have these limitations affected our conclusions in important ways? Better data and wider consultations would certainly have helped to improve the quality and depth of our analysis. In particular, a more thorough analysis of sectors other than roads and education would have strengthened our conclusions in relation to the effectiveness of policy dialogue and of public spending. On the other hand, our financing simulations in Chapter 3 suggest very strongly that the education and roads sectors have been the overwhelming beneficiaries of Budget Support funding. In addition four important cross-cutting policy themes were analysed in some detail - PFM reform, governance reform, Local Government reform and decentralisation, and the improvement of the Business Environment.

42. It should also be stressed that the interactive process followed by the evaluation has permitted preliminary conclusions to be shared both in formal and informal ways with key stakeholders and resource persons. In particular, some preliminary conclusions were shared with Focus Groups to obtain informal feedback, and there have been formal presentations to the Evaluation Management Group and to the audience of the Annual Review of Budget Support, held in Dar es Salaam on November, 2012. These consultations allowed factual errors to be corrected and led to some refinement of conclusions and recommendations.

43. **Overall, it has proven possible to answer 13 of the 14 Evaluation Questions, drawing on evidence which was in most cases 'strong' or 'more than satisfactory',** and only occasionally 'indicative but not conclusive' (See the matrix of responses in Annex Two and Table 3 above for the corresponding definitions.) Thus, we do not believe that these limitations have materially affected our conclusions; nor, by implication, do we believe that further work would have been necessary to fulfil the objectives of the evaluation.

1.5. Report structure

44. This introductory chapter has aimed to provide essential background information on the objectives and methodology of the evaluation, whilst also drawing attention to some key features of the political and socio-economic context for the evaluation, and to some of the limitations of our analysis. Subsequent chapters follow the structure of the Intervention Logic underlying the evaluation framework:

[16] It did not prove possible to meet Parliamentarians because Parliament was in recess during the time of fieldwork, and no Dar es Salaam resident MPs were available at that time, nor at the time of the inception visit.

- **Chapter Two** addresses levels 1 and 2 of the evaluation framework, asking how successful Budget Support has been in providing the Government with the necessary means to implement the national poverty reduction strategy.
- **Chapter Three** completes Step One of the analysis, considering how far Budget Support has facilitated improvements in Government policies and practices. It thus considers the "induced outputs" of Budget Support, which comprise level 3 of the framework.
- **Chapter Four** reports on Step Two of the analysis. It examines the potential outcomes and impacts of Budget Support, in terms of growth, income poverty and non-income poverty, considering in detail the relationship of education sector outcomes to corresponding sector outputs, drawing on the econometric analysis undertaken.
- **Chapter Five** then reports on Step Three of the analysis, presenting the overall conclusions on the contribution of Budget Support within the period. It also includes recommendations for the DPs and for the GoT.
- **The Annexes in Volume Two** provide complementary information**,** including notably a matrix of responses to the EQs and a Summary of the Budget Support operations evaluated, as well as a statistical appendix, a bibliography and a list of persons met, and a presentation of the results of the econometric analysis of outcomes for primary and secondary education.

2. Providing the means to implement policy: Budget Support inputs and direct outputs

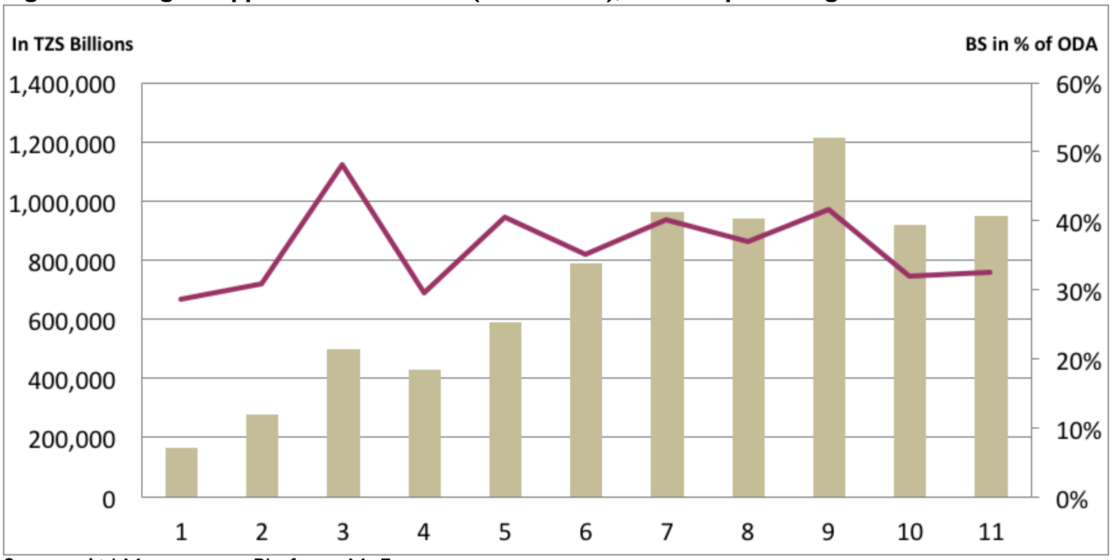
45. This chapter addresses levels 1 and 2 of the evaluation framework, covering Budget Support inputs and their direct outputs. It brings together the responses to EQs 1.1, 1.2, 2.1, 2.2 and 2.3, for which we present our responses with details of data sources and their quality in Volume Two. Here, we synthesise our responses to these questions in order to address the crosscutting question: "how successful has Budget Support been in providing the Government with the necessary means to implement MKUKUTA, the national poverty reduction strategy?" We consider five aspects:

- What has been the scale of Budget Support, the relative predictability of its disbursements, and its effects on the harmonisation and alignment of aid as a whole?
- What have been the key design features of the Budget Support operations?
- What mechanisms for policy dialogue have been established through the Budget Support framework at the aggregate and sector levels and how successful have these mechanisms been in promoting sustainable and effective structures for policy dialogue?
- What technical assistance and capacity-building inputs have been provided through Budget Support and with what effects?
- How has the Budget Support design changed over the evaluation period and why?

2.1. Scale & Predictability of Budget Support, and its effects on aggregate Aid flows

46. **In nominal US dollar terms, budget support has increased three-fold over the period 2001/ 02 – 2011/ 12: from just under US $ 200 million to just under US $ 600 million[17].** However, disbursements peaked in 2009/10 with a total disbursement of US $ 920 million (Tsh 1,215 billion), and have fallen significantly in the last two years (Figure 2). GBS/ SBS disbursements in the last two years have comprised some 32 % of total ODA but, within the seven-year evaluation period, the proportion of Budget Support within total ODA has been relatively stable, representing on average some 37 %.

Figure 2: Budget Support disbursements (Tsh billions), and as a percentage of total ODA



Source: Aid Management Platform, MoF.

Table 5: Disbursements of General & Sector Budget Support (Tsh billions) and their significance

Tsh. Billions (Current prices)	2005/ 06	2006/ 07	2007/ 08	2008/ 09	2009/ 10	2010/ 11	2011/ 12
Total Budget Support	**592**	**790**	**963**	**941**	**1,215**	**928**	**947**
General Budget Support	592	790	963	727	906	831	777
Sector Budget Support	0	0	0	64	57	109	169
Total expenditure	3,873	4,475	5,217	6,907	8,312	9,439	10,763
Nominal GDP	16,857	19,010	22,865	26,497	30,253	34,763	41,120
BS as % total expenditure	***15.3%***	***17.7%***	***18.5%***	***13.6%***	***14.6%***	***9.8%***	***8.8%***
BS as % total ODA	*46%*	*40%*	*45%*	*41%*	*50%*	*35%*	*33%*
BS as % nominal GDP	*3.5%*	*4.2%*	*4.2%*	*3.6%*	*4.0%*	*2.7%*	*2.3%*

Source: Aid Management Platform, MoF and IMF Article IV Reports.

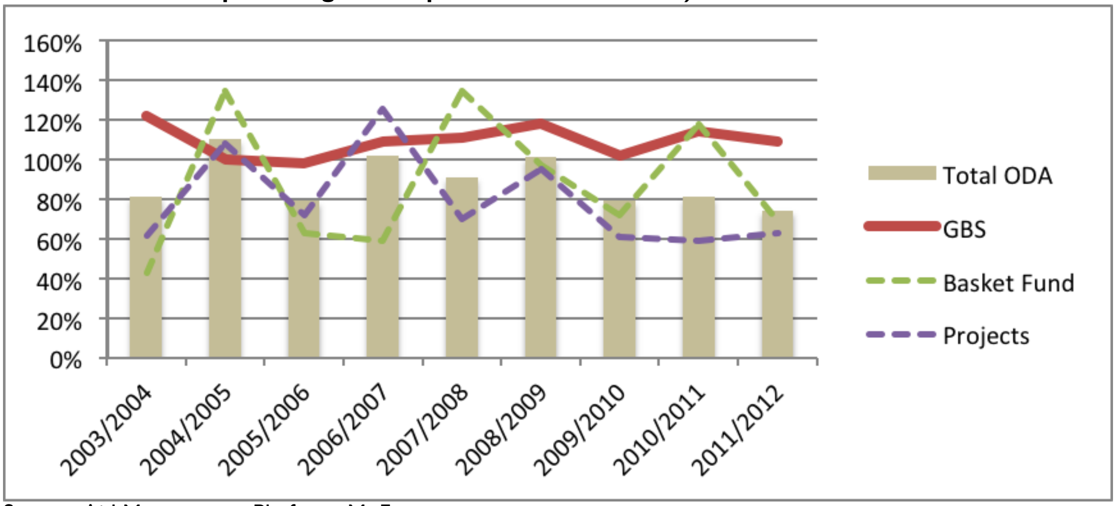
47. **In terms of fiscal significance, Budget Support has had a major importance for Tanzania, comprising some 18.5 % of public spending at its peak in 2007/08** (Table 5).

[17] Due to the faster rate of inflation of the shilling with respect to the dollar, in nominal Tanzania shillings, the increase has been from 200 billion in 2001/ 02 to 950 billion in 2011/ 12, as shown in Figure 2. At the request of the Tanzanian authorities, tables and figures have been presented in Tanzania shillings for ease of comparison with other Government documents.

With the growth of domestic revenue, its significance has declined to just under 10 % of public spending in 2010-11, and 8.8 % of the preliminary out-turn of public spending for 2011-12. Nevertheless, these figures place Tanzania amongst a group of only four countries for which Budget Support has averaged more than 10 % of public spending in the period 2004 – 2010. (Mozambique, Rwanda, Burkina Faso, and Tanzania – as reported in IOB, 2012).

The predictability of Budget Support flows

Figure 3: Predictability of total ODA and of the three main aid modalities (actual annual disbursements as a percentage of the planned disbursements)



Source: Aid Management Platform, MoF

48. **When looking at an annual period, the predictability of budget support is significantly better than that of projects and common basket funds**. Actual disbursements of GBS/ SBS have generally been close to 100% of the planned disbursements (ranging from 96% to 123% over the eight-year period since 2003/04), and since 2006/07, they have been higher than projections[18]. By contrast, for the two other modalities, the variation is more substantial and disbursements are usually smaller than projected. This can be attributed largely to the success of the procedures established for estimating and reporting on the planned GBS/ SBS disbursements for the forthcoming fiscal year. These are specified in the Partnership Framework Memorandum of 2006: they require that planned disbursements should be confirmed to MoF by the BSG (Budget Support Group), after the conclusions of the annual reviews are reached and the values of variable tranche (or "performance tranche") disbursements have been calculated. The equivalent procedures for other modalities are less established and not uniformly respected by the various providers of projects and common basket funding.[19]

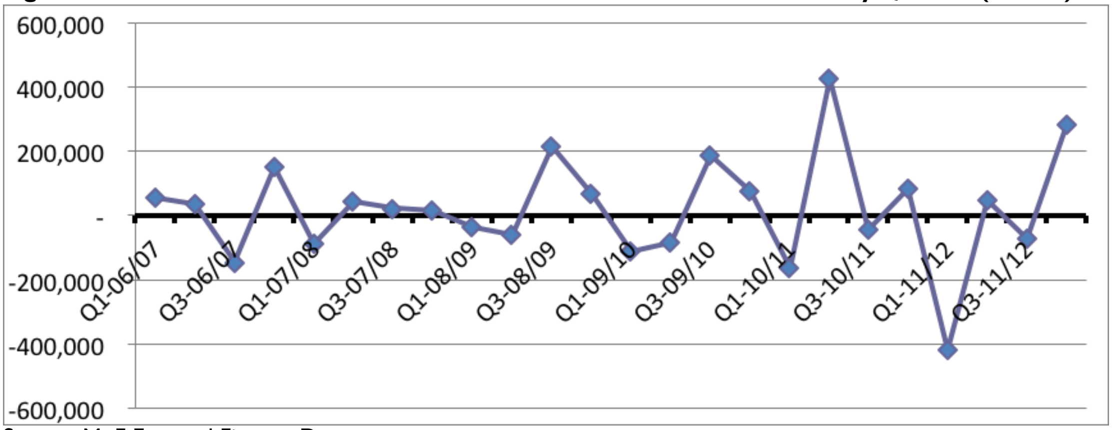
[18] This is due to two reasons: firstly, exchange rate movements have meant that the value in Tanzania shillings of GBS and SBS disbursements has often been higher than the value projected prior to the start of the fiscal year; secondly, the EU and the World Bank have made additional (initially unplanned) disbursements to support the national response to the global financial crisis and to the sharp rise in food prices.

[19] Data have been provided by the External Finance Department of MoF, who collect information via the Aid Management Platform where donors report on planned and actual disbursements. MoF consider that full reports are received on Budget Support and on Basket Funds but they are aware that some donor agencies report on planned project disbursements more systematically than on actual project disbursements. Hence,

49. Budget Support disbursements are also projected by quarter. The timeliness of disbursements within the year represents an important influence on cash and treasury management processes, given the scale of budget support. For this reason, the Partnership Framework Memorandum and several of the individual Budget Support agreements emphasise that disbursements should be predictable, and ideally "front-loaded" within the year.

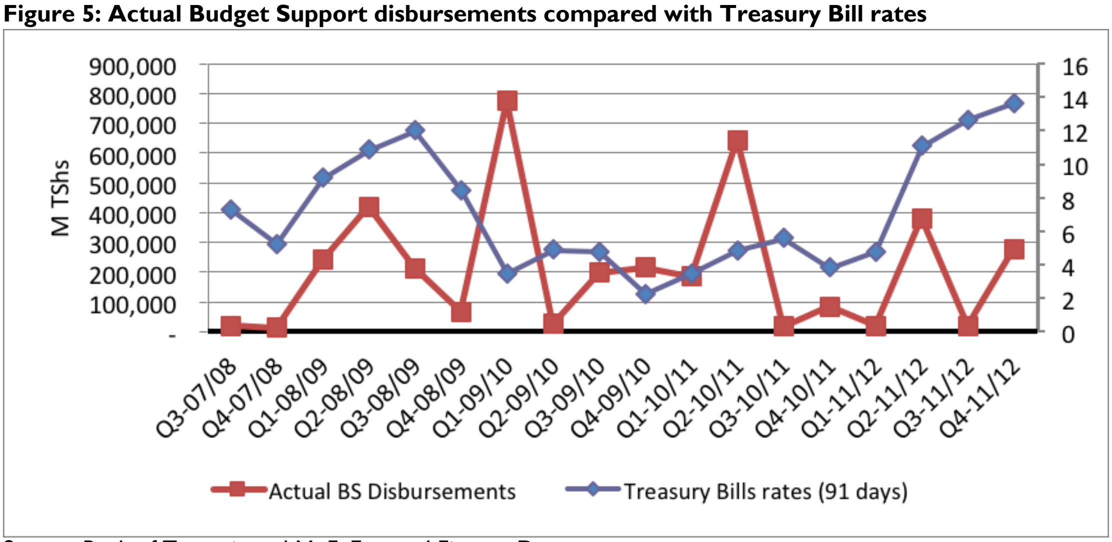
50. **Data show that GBS/ SBS disbursements due in the first quarter of the year tend to be delayed**. Figure 4 shows the difference between the projected GBS/ SBS disbursements by quarter (as reported by the DPs to MoF) and what has actually been disbursed in each quarter. When the difference is positive (as for the first quarter 2006/07), disbursements have been higher than programmed. In general, we see that the difference is positive for the second two quarters, while it is negative in the first quarter and, to a lesser extent, in the second quarter.

Figure 4: Differences between scheduled & actual GBS/ SBS disbursements by Quarter (Tsh. M)



Source: MoF External Finance Department

Figure 5: Actual Budget Support disbursements compared with Treasury Bill rates



Source: Bank of Tanzania and MoF, External Finance Department

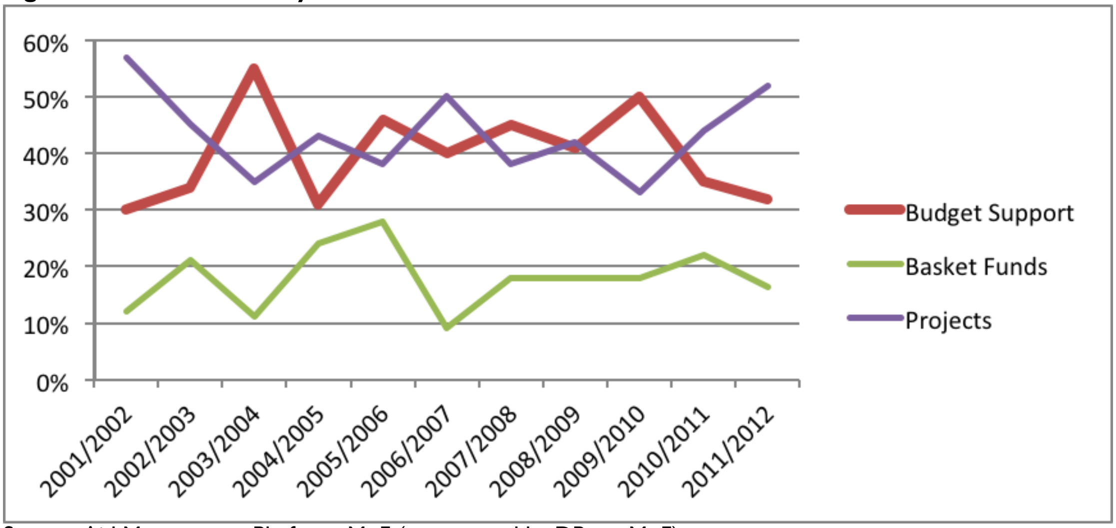
the predictability of project funding may be under-estimated due to actual disbursements being less reported than budgeted disbursements. However, the increased consistency of the data series since 2009/10, following the volatility of the earlier years, suggests that the regularity of reporting has improved.

51. **Thus, predictability and "front-loading" objectives are not yet being completely fulfilled but the effects do not appear serious.** In analysing fluctuations in Treasury Bill rates, no clear relationship emerges between the rate of interest and the timeliness of planned Budget Support disbursements. (See Figure 5.) Either the market in Treasury Bills is sufficiently large in relation to the value of Budget Support short-falls or the range of alternative liquidity instruments (such as BoT overdrafts) for covering these shortfalls is sufficiently wide to avoid significant "crowding out' effects from the issue of unplanned Treasury Bills[20]. Some of the costs of late GBS/ SBS disbursements may be borne by delays in the approval of budgetary expenditures within year. The late release of funds to LGAs and MDAs is commonplace but there may be other causes for this – including administrative delays in submitting the documentation required prior to the release of funds, and decisions taken within year to cut budgets to control the overall deficit (such as in 2010/ 11 and 2011/ 12). Hence, there is insufficient evidence to conclude that delays in release of budget funds are caused by late GBS & SBS disbursements.

Evidence of positive effects on predictability, harmonisation & alignment of aid as a whole

52. **How far has Budget Support had positive effects on the structure of aid as a whole?** Two direct effects envisaged from Budget Support are firstly an increase in the absolute and relative level of aid managed through the national budget process (and more generally, through country systems) and secondly an increase in the predictability of aid disbursements. In addition, the Intervention Logic postulates that the harmonisation and alignment of GBS/ SBS inputs may contribute to the wider harmonisation and alignment of external aid as a whole, with corresponding reductions in the relative significance of transaction costs.

Figure 6: Disbursements by Aid modalities as % of total ODA



Source: Aid Management Platform, MoF (as reported by DPs to MoF)

[20] Indeed, Treasury Bill rates have remained remarkably low in real terms, given that headline inflation rates have been in double digits since January 2011. (See Figure 5.)

53. **Our judgement is that there is insufficient evidence to conclude that the use of country systems has expanded or reduced during the period of the evaluation.** The 2008 Paris Declaration survey reported that 71 % of ODA utilised country PFM systems, a proportion which rose to 79 % in the 2010 survey. We find these figures implausible given that Budget Support and Basket Funds together comprised only 63 % and 68 % of total ODA in the survey years, meaning that all Basket Funds and approximately a third of all projects would need to have been fully compliant with country systems. Moreover, the sources of data for these surveys are known to be subject to bias, given that they are questionnaire-based, and there is also doubt over the definitions of "use of country PFM systems", which have been applied[21].

54. **With regard to the overall predictability of aid disbursement, data on predictability of annual disbursements suggests no significant change.** Figure 3 above shows the aggregate predictability of ODA disbursements to have been 80% in 2005/ 06 and just under 80 % in 2011/ 12. Without an expansion in the share of Budget Support – as the modality with the highest predictability of annual disbursements, overall predictability could only improve through improved performance of the other modalities and there is no evidence of this.

55. **In relation to transaction costs, available evidence is indicative rather than conclusive but, if anything, it suggests an increase in overall transaction costs.** Interviews were held with two sets of government and DP stakeholders: those working within or with central agencies and those working within or with sector agencies. They were asked to report their perceptions on the trends in transaction costs over time and by modality:

    - There was a virtual unanimous agreement that the transaction costs per unit of aid remained lower for Budget Support than for other modalities but that during the evaluation period the transaction costs for Budget Support had increased, as a result of the expansion of the PAF and the increasingly protracted discussions over the assessment of the PAF. (See section 2.3.)
    - The balance of opinion was that transaction costs for three Common Basket Funds (CBFs) (Agriculture, Health, Local Government Capital Grant Scheme) had fallen over time as procedures had been streamlined and familiarity with procedures increased.
    - No discernible change in the relative transaction costs for projects was reported.

56. The decline in the share of Budget Support within ODA, and the reported increase in transaction costs for Budget Support suggests that there has been an increase in aggregate transaction costs, despite the improvements reported with regard to CBFs. There is no indication that Budget Support influenced the improvement in the transaction costs of CBFs.

[21] The final evaluation of the Paris Declaration acknowledged these weaknesses in the data sources for the 2008 and 2010 monitoring reports and drew its conclusions predominantly from a new set of Country and Donor reports, specially commissioned for the evaluation. Unfortunately, such a country study was not commissioned for Tanzania, so we can only draw on the monitoring reports. See Wood, B et al (May, 2011), *The Evaluation of the Paris Declaration: Final Report*, Copenhagen.

Table 6: Tanzania: Performance against the Paris Declaration Principles

PARIS DECLARATION PRINCIPLES	INDICATORS		2005 REFERENCE	2007	2010	2010 TARGET
Ownership	1	Operational development strategies	B	-	A	A
Alignment	2a	Reliable public financial management (PFM) systems	4.5	4.0	3.5	5.0
	3	Aid flows are aligned on national priorities	90%	84%	93%	95%
	4	Strengthen capacity by co-ordinated support	50%	61%	26%	50%
	5a	Use of country PFM systems	66%	71%	79%	77%
	5b	Use of country procurement systems	61%	69%	72%	No target
	6	Strengthen capacity by avoiding parallel PIUs	56	28	18	19
	7	Aid is more predictable	70%	61%	97%	85%
	8	Aid is untied	97%	97%	96%	More than 95%
Harmonisation	9	Use of common arrangements or procedures	55%	61%	60%	66%
	10a	Joint missions	11%	16%	26%	40%
	10b	Joint country analytical work	38%	65%	48%	66%
Managing for Results	11	Results-based monitoring frameworks	B	B	B	B or A
Mutual Accountability	12	Mutual accountability	Yes	Yes	Yes	Yes

Source: Tanzania Country Chapters for OECD-DAC Surveys on Monitoring the Paris Declaration, 2008 & 2010

57. In relation to broader processes of harmonisation and alignment, the scores of the 2008 and 2010 Paris Declaration surveys suggest that modest progress has been made during the evaluation period. With regard to the alignment targets specified in the Paris Declaration, the scores for the 2008 and 2010 surveys suggest improvements in 5 out of 8 indicators, with two deteriorating and one remaining essentially the same. (See Table 6.) The harmonisation process saw less change, with one indicator improving, one deteriorating and one essentially remaining unchanged. These data are however subject to the same concerns over accuracy noted above.

58. **The principal cause of these modest improvements seems to be the process surrounding the Joint Assistance Strategy for Tanzania (JAST), rather than any influence from the Budget Support process**. The JAST came into force in July 2006 and has been a significant driver of harmonisation and alignment efforts since then. It is a Government-led, national medium-term framework for managing development co-operation and achieving national development and poverty reduction goals. It includes commitments on alignment, increased use of government systems, increased aid predictability, open dialogue between government and domestic stakeholders, improved division of labour, and a move towards the

government's preferred aid modality of Budget Support. The 2005 evaluation (Daima Associates & ODI, 2005) concluded that the success of the Budget Support partnership in the 2000 – 2004 period facilitated the shift from the Government's Tanzania Assistance Strategy, which co-existed with a range of DP-led country assistance strategies, to the more unified and harmonised JAST. However, since its inception in 2006, the JAST has been a process existing independently of the Budget Support process. There is no evidence that Budget Support influenced the modest improvements in alignment recorded during the evaluation period.

2.2. The Design of Budget Support in Tanzania

The 2006 and 2011 Partnership Framework Memoranda

59. The Partnership Framework Memorandum, signed in 2006 by the Government and the 14 DPs providing Budget Support has largely determined the objectives and the management structure for Budget Support, which have prevailed throughout the evaluation period. It is in many ways, a remarkable document, and a real testament to the quality of partnership and collaboration, which existed at that time, based upon the favourable experiences with Budget Support in Tanzania since 2001[22], and the wider international commitment to aid effectiveness through the Paris Declaration of 2005. What is perhaps more surprising is that five years later when the context for partnership was quite different, most of the Partnership Framework Memorandum remained unchanged when it was renewed in 2011 to cover the 2011 – 2016 period, consistent with MKUKUTA II.

60. **The 2006 Partnership Framework Memorandum provides a common framework for the provision of Budget Support, focused on the overall objective 'to contribute to Tanzania's economic growth and poverty reduction by supporting the financing, implementation and monitoring of MKUKUTA'.** It sets six "intermediate objectives", relating to financing of the budget, aid effectiveness, improving the quality of public spending and the effectiveness of PFM, improving policy monitoring and evaluation, engaging in policy dialogue aimed at 'enriching the country's strategies', and strengthening the national planning and budgeting process and 'the capacity of LGAs as the key front-line implementers of MKUKUTA'. The overall objective and the six intermediate objectives were retained unchanged, when the Partnership Framework Memorandum was renewed in 2011.

61. **The 2006 Memorandum established five underlying principles, 'critical to the continuation of the Budget Support partnership'**. These were again retained unchanged in the 2011 Memorandum:

- Sound macroeconomic management;

[22] The 2004-05 evaluation (Daima Associates & ODI, 2005) provided independent testament of the positive impact of GBS over this period but it also sounded certain warning notes, concerning the capacity weaknesses within government and the interweaving of conditionality and policy dialogue within the management structure. As we explain below these warning notes were largely ignored.

- Commitment to achieving the MKUKUTA objectives and the MDGs;
- Sound budgeting and PFM systems;
- Continuing peace and respect for human rights, the rule of law, democratic principles and the independence of the judiciary.
- Good governance, accountability of the government to its citizens and integrity of public life, including the active fight against corruption.

62. It established an integrated framework for assessing performance against the targets in MKUKUTA and against the specific targets and conditions for disbursement of GBS. This involved two core elements:

 i. A standardised annual calendar for progress review and for decision-making on GBS disbursements, integrating review processes for the sectors and thematic areas, for MKUKUTA and for GBS and culminating in a final annual policy dialogue meeting which would provide the basis for disbursement decisions;

 ii. A common PAF providing a common set of conditions and indicators by which to decide on annual GBS disbursements.

63. **Thus, the core essentials of a structured, harmonised assessment and disbursement process had been established in Tanzania from the outset of the evaluation period, and have been preserved.** An integrated annual review calendar remains in place, and has successfully incorporated the assessment conditions for SBS, since its advent in 2007/08, within the relevant annual sector reviews (education and transport). The proceedings of the annual review processes are open to a wide range of stakeholders, their results are published and are generally the subject of press releases. Budget Support review processes are linked to the MKUKUTA annual review process and to the annual budget preparation calendar.

The design of the Performance Assessment Framework

64. The current format of the PAF was developed in 2005. It involves three levels of assessment:

- **'Underlying Processes'** (UPs) record progress in sector reviews, reform programmes and with overarching policy issues such as MKUKUTA and macro stability.
- **'Temporary Process Actions'** (TPAs) were designed to be temporary measures to cover areas where underlying processes were not yet in place. However, they are now used as a method to highlight key measures or actions in each sector that need to be addressed for reforms to be carried out or indicators to be met. They also form the basis for the assessment of the DFID Performance Tranche for its GBS operation.
- '**Outcome Indicators'** (OIs) provide a time series to track performance against the MKUKUTA targets, for example, 'gross enrolment in higher education', as well as numerical indicators related to underlying processes, e.g. 'inflation rate consistent with PSI targets'.

65. The overall conceptual and management framework for PRBS went through a re-design, led by a joint government-DP team, shortly after publication of the 2004-05 evaluation (Daima Associates & ODI, 2005). (See Thornton, P. et al, 2011) One objective was the development of a single harmonised matrix; thus, the PRBS and PRSC assessment matrices, which had existed as separate documents since 2001 were fully merged. A secondary objective of the re-design was to find a way of implementing the recommendation of the 2004-05 evaluation to restructure the disbursement decision process so as avoid the 'inter-weaving' of dialogue and conditionality. This recommendation drew both on the findings from the joint evaluation and on earlier assessments of structural adjustment operations concerning the limited impact of policy conditionality[23]. Three linked monitoring systems were proposed:

- An annual assessment of compliance by GoT and DPs with 'due process' conditions for budget support, against which decisions on continued disbursement would be based;
- An annual assessment of key outcome indicators, as an input into decisions over the scale of Budget Support over the medium-term (and over the short-term for operations with performance tranches); and
- A regular dialogue process led by GoT as a mechanism for target setting and monitoring of the national reform and development strategy, to which DPs would be invited to contribute but which would not have links to disbursement decisions.

66. It did not prove possible to implement this framework. Regular annual reporting of outcomes was retained and linked directly to the frameworks being established for the newly published MKUKUTA (the 'OIs'). However, the notion of 'due process' conditions was replaced by the concept of 'underlying processes', which were broader in scope, more loosely defined and less linked to budgetary outcomes and processes[24].

67. TPAs were defined as a matrix of short-term actions against which the implementation of government policy could be measured. It was originally stated that they would be replaced with the GoT's own MKUKUTA matrix once this was in place but this never occurred, partly because the MKUKUTA matrix focused on outcomes rather than on short-term policy actions and partly because the TPAs came to represent, for many of the BSG, the most effective way of applying conditions to disbursements. They thus came to be decided through an annual negotiation process between the GoT and the BSG. (See Thornton, P. et al, 2011.)

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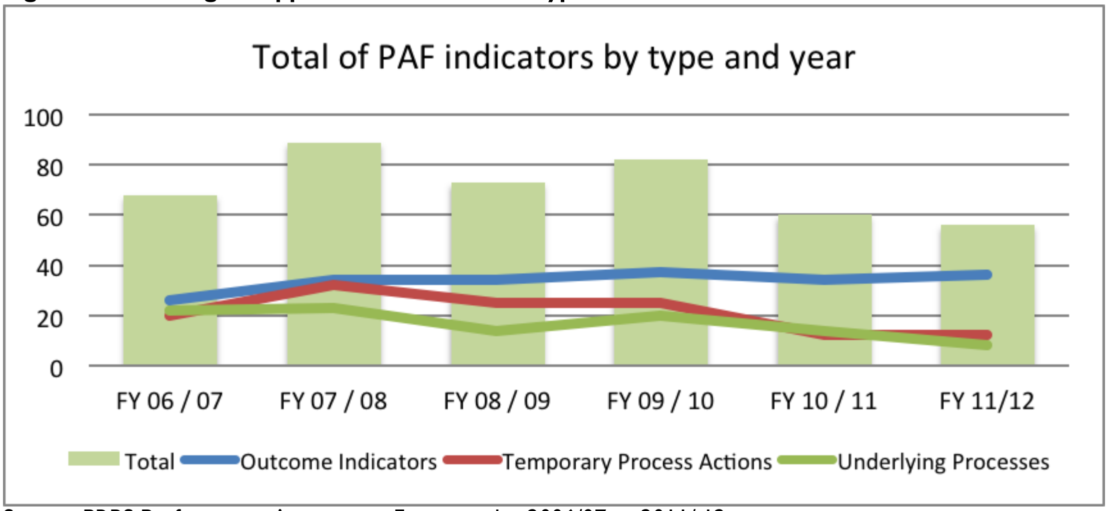
23 Evaluations of structural adjustment lending are unanimous in observing a) that policy reforms were only introduced and sustained where there was a domestic political constituency in support of those reforms, and b) that these domestic political constituencies had proven impervious to the influence of policy conditionality. See Collier (1997), Killick (1998), Dijkstra (1999), Dollar & Svensson (2000), Tarp & Hjertholm (2000), Svensson (2003), Koeberle et al (2005) and Morissey (2005).

24 The six questions originally proposed for assessing compliance with "due process" were: (i) Are policy and spending decisions guided by a clear poverty reduction strategy? (ii) Do effective budget systems exist to direct resources to the achievement of the strategy? (iii) Does the PFM system ensure that expenditures follow budgets, and that reasonable value for money is achieved? (iv) Are results measured openly and transparently, and compared to objectives? (v) Do review mechanisms exist to refine strategy in the light of results? (vi) Are governance and management systems annually assessed and strengthened?

68. Following the framework of MKUKUTA, the new PAF was organised into four clusters, each of which included indicators for Underlying Processes, TPAs and Outcomes (Figure 7 & Table 7):

- **Cluster I:** Growth and Reduction of Income Poverty;
- **Cluster II:** Quality of Life and Social Well-Being;
- **Cluster III:** Governance and Accountability; and
- **Cluster IV:** Public Financial Management and Macroeconomic Stability.

Figure 7: The Budget Support PAF: numbers & types of indicators



Source: PRBS Performance Assessment Frameworks, 2006/07 to 2011/ 12

Table 7: Total numbers of PAF indicators per year by Cluster

	2006/07	2007/08	2008/09	2009/10	2010/11	Total
Cluster I	24	29	31	25	18	127
Cluster II	17	25	17	22	15	96
Cluster III	12	16	14	16	14	72
Cluster IV	18	19	17	23	13	90
Total	71	89	79	86	60	385

Source: PRBS Performance Assessment Frameworks, 2006/07 to 2011/ 12.

2.3. The processes and mechanisms for Policy Dialogue

Overview

69. **In terms of harmonisation, alignment and stakeholder engagement, the existing framework for dialogue scores relatively well**. As we have reported above, the core essentials of a structured, harmonised assessment and disbursement process had been established in Tanzania from the outset of the evaluation period, based upon the provisions of the Partnership Framework Memorandum of 2006. These have been preserved, within the new Partnership Framework Memorandum of 2011 and the related procedures.

70. **The Budget Support framework for policy dialogue can also be credited with promoting the use of results and indicators within the Tanzanian policy process.** Annual review processes now exist for all of the principal sectors, which both review

performance against existing reform and service delivery targets and set new targets for future years. Some of these – notably, in agriculture, education, health and roads, had their genesis in Sector Programmes initiated in the 1990s – but the scope of these sector reviews has been expanded and the structure formalised, with reports made to "Cluster Working Groups" (MKUKUTA clusters – see Section 2.2), and from there to the Budget Support Annual Review.

71. **There are also certain specific policy results, to which the Budget Support policy dialogue is attested to have contributed[25]:**

- The consistent political and administrative commitment to the PFM reform programme;
- The consistent support for the Road fund and the related road maintenance arrangements;
- The introduction of capitation grants for secondary schools;
- The introduction of budget transparency targets regarding publication of key budget documents;
- The steady strengthening of the accountability and anti-corruption institutions[26].

72. **Notwithstanding these achievements, there is a perception, shared almost unanimously[27], that the policy dialogue has fallen short of achieving its objectives.** The process of dialogue is functional but there is limited substance in this process. Our evaluation concurs with this assessment. Specifically, there is evidence that the quality of policy dialogue has declined since the beginning of the evaluation period and falls short of the level of performance to be expected within a mature budget support arrangement. Our analysis of the PAF and of the documentation from sectoral and national annual review processes, as well as findings from individual interviews and focus group discussions provide strong evidence of four fundamental failings, which we review below:

- A declining level of ownership by Government over the process, prompted to a large extent by a declining degree of trust in the Government, expressed explicitly and implicitly by the DPs;
- A lack of consistency, coherence and "S.M.A.R.T–ness" in the definition of PAF indicators;
- An absence of a strategic, problem-solving orientation to the dialogue process; and
- A steady increase in the level of transaction costs associated with assessment and dialogue

25 These are policy results, which it is judged would not have been achieved at all, or not with the same speed and scale, in the absence of the Budget Support policy dialogue. In order to feature within this list, these policy results have been separately identified by informed stakeholders on both the Government and DP side.

26 Stakeholders attributed this result in part to the wider GBS dialogue, in part to the establishment of the high level dialogue on corruption, and in part to targeted project support. This is an area where there is evidence of positive synergies between Budget Support dialogue and targeted project support. (See Chapter 3.)

27 All Government stakeholders interviewed were unanimous in perceiving the Budget Support dialogue as having fallen short of expectations. Among those interviewed from the BSG partners, some more recently arrived in Tanzania felt that the existence of a structured, harmonized framework was itself an achievement; all those with more time in post agreed that the dialogue framework was not working effectively.

processes, in large part as a consequence of the other three factors.

The declining level of Government ownership of the policy dialogue

73. The Partnership Framework Memorandum conceived of Budget Support dialogue as a partnership between Government and its DPs to monitor the implementation of MKUKUTA, and the corresponding use of the national Budget. The initial set of targets in the 2004-05 and 2005-06 PAFs related closely to the MKUKUTA and to the underlying principles agreed within the Partnership Framework Memorandum. Even if many of the proposed indicators and targets emerged as proposals from the DPs, there was an active process of discussion and agreement of these targets led by the senior officials of the Ministry of Finance[28].

74. By 2011, a study commissioned by the BSG (Claussen, J. and M.Martinsen, June 2011)[29] noted that, far from being a Government-led, genuinely harmonised framework, the PAF had developed into 'the sum total of all DPs' individual preferences and requirements' (Idem, p.1). Many stakeholders have pinpointed the moment of the revelation of the BoT EPA scandal in 2007, as the turning point where trust in Government was lost and the PAF began to convert itself from a joint monitoring mechanism to a DP-led instrument, by which to attempt to exert "policy leverage". With this shift[30], the effective ownership of Government was lost and the PAF assessment process became little more than a compulsory process, which needed to be respected in order for Budget Support disbursements to continue. Over time, senior GoT staff – in particular of the MoF, have dedicated little more than the minimum time necessary to the process. Since 2010, there has been an increasing awareness of the weakness of the dialogue process and some improvement in the quality of exchanges, but a lack of real engagement and leadership of the process by Government remains a consistent feature.

28 Two GoT officials closely involved in the negotiation process in these years confirmed this in interviews.

29 Claussen, J. & M.Martinsen, (June, 2011), *A brief review of the Performance Assessment Framework (PAF) for GBS to Tanzania,* Nordic Consulting Group.

30 Some DPs attribute the change in approach more to the disappointing results of the 2007 Household Budget Survey and not to the EPA and Richmond scandals. Whatever the cause, the evolution of PAF indicators and the testimony of stakeholders involved in the GBS process at that time points clearly to a change in the approach towards assessment from 2007 onwards. We discuss this shift more fully in Section 2.5.

The high transactions costs generated by the policy dialogue framework

Table 8: Numbers of PAF indicators in total and by type, 2004/05 – 2011/ 12

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
UPs	1	25	27	23	20	21	14	8
TPAs	53	20	20	32	24	25	12	12
OIs	1	22	24	34	35	40	34	36
Total	**55**	**67**	**71**	**89**	**79**	**86**	**60**	**56**

Source: PRBS Performance Assessment Frameworks, 2004/05 to 2011/ 12

75. **Simultaneous with this loss of ownership and engagement, there has been a significant increase in the transaction costs associated with the annual assessment process and the related policy dialogue**[31]. This is a perception reported unanimously by all relevant stakeholders interviewed. It is manifested most obviously in the steady growth in the number of indicators incorporated within the PAF. Taking all the PAF indicators together, the total number grew from 55 in 2004/05 to 89 in 2007/08, before falling again to 60 in 2010/11 and 56 in 2011/12, when deliberate efforts to create a more strategic PAF were undertaken by the GoT and the BSG. (Table 8.)

76. Based on a wider range of proxy indicators of transaction costs, the DFID/ Irish Aid Tanzania Country Programme Evaluation of 2010 concluded that: '*In general the trend seems to be towards a more administratively burdensome review process with more indicators being assessed and discussed, larger reports being written and meetings taking place later in the fiscal year, due to the time taken to bring the necessary information together*.' (op.cit, Annex 5, p.2). In addition, several interviewees expressed the view that the inclusion of cluster level discussions as a middle layer between sectoral reviews and discussions within the PRBS apex group had also raised transaction costs, without bringing any apparent new insights or policy linkages.

Weaknesses in the technical construction of PAF indicators

77. High transaction costs do not encourage busy senior officials to engage with the Budget Support policy dialogue, and this disincentive has been further reinforced by evident weaknesses in the technical construction of indicators. Measurability and relevance are among the essential requirements for good indicators (captured in the S.M.A.R.T. mnemonic). Yet, over 12% of the indicators included in the PAF proved to be in one way or another unmeasureable. (Table 9). In terms of strategic relevance, one would also expect a high degree of consistency in the indicators used each year, yet, in four out of six years over 35% of indicators were new. (Table 10.)

31 The question whether increased transaction costs weigh more heavily on the Government or on DPs is an important one but unfortunately not one for which the evaluation team were able to collect clear evidence. However, the testimonies received and the proxy indicators examined would suggest that the burden has been borne relatively equally.

Table 9: Number of PAF Indicators found to be unmeasureable, 2005-06 to 2010-11

Not measurable	21
of which Not assessed	12
Not available	7
Others	2
Unclearly measured	25
Not agreed	10

Total with measurement difficulties	**56**
Total indicators	436
As % Total indicators	**12.8%**

Source: PRBS Performance Assessment Frameworks, 2005/06 to 2011/ 12

Table 10: Total new PAF indicators in each year by type, 2006-07 to 2011-12

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Underlying Processes	0	2	3	6	0	1
TPAs	13	29	24	0	10	12
Outcome indicators	3	7	12	9	13	23
Total New Indicators	**16**	**38**	**39**	**15**	**23**	**36**
As % of total indicators	23%	43%	49%	17%	38%	64%

Source: PRBS Performance Assessment Framework, 2006/07 to 2011/ 12

78. The Claussen & Martinsen report also identified a lack of inter-temporal consistency in the design of the PAF, with many Temporary Process Actions considered "partially completed", "not completed", or "delayed" in one year being completely dropped from the assessment process in subsequent years. Indeed, over the evaluation period, of the 64 TPAs falling into these categories, only 16 (25%) were followed up in the subsequent year. Claussen & Martinsen also found the assessment process for measuring and verifying performance to be unclear and often intransparent, leading to disputes between Government and the DPs over what was actually achieved and how "satisfactory" that should be considered. Claussen & Martinsen judged that the consequent need for DPs to play an "auditor's role" had exacerbated the atmosphere of mistrust.

The absence of a strategic, problem-solving orientation

79. The Partnership Framework Memorandum explicitly states that one of the 'intermediate objectives' of Budget Support should be to promote dialogue aimed at '*enriching the country's strategies*'. However, in our focus group discussions, Government officials openly expressed their scepticism over the potential for a genuine problem-solving approach to be introduced into the policy dialogue, without a radical change in the DPs' approach. They pointed to the serious difficulties created by the underlying atmosphere of mistrust, which they reported had prevailed to varying degrees, since 2007.

80. **In our judgement, the decline in the quality of dialogue reported since 2007 seems likely to be at least partly a consequence of the increased levels of conditionality.** Where performance targets become interpreted as disbursement conditions, there is an obvious interest on the government side to 'keep the bar low' so as to fulfil targets and secure disbursements, whereas the incentive on the DP side is to raise the bar so as to increase 'policy leverage'. This is probably a contributory cause of the protracted and conflictive negotiations, reported by stakeholders. Claussen and Martinsen (2011) also refer to the difficulties created by the DPs combining the roles of "auditors" and "partners in dialogue". The increased

conditionality has probably also limited the degree of openness on the Government side, in discussing performance problems and looking for shared solutions. The DP representatives with longer experience of the Budget Support dialogue suggested that access to information had become more difficult, and reported that informal exchanges with Government representatives on policy issues had become rarer and more difficult to organise.

81. **Perhaps the strongest evidence of a lack of a strategic, problem-solving orientation is the fact that many policy problems have remained essentially unsolved**. In virtually every Annual Review during the evaluation period, concerns have been expressed over a perceived lack of progress in four areas: (i) the slow implementation of PFM reforms, (ii) the continued inability to redress the imbalances in the allocation of financial and human resources to disadvantaged districts, (iii) the slow implementation of anti-corruption measures and (iv) the slow progress in improving the business environment. While it is clear that these are difficult policy problems, involving political, institutional, legal, and technical issues which are by nature intractable, it seems surprising that there are no obvious "policy break-throughs", reported in any of these four areas.

82. Allied to this observation, is the notable scarcity of documentation on policy ideas, case studies or international examples presented by BSG members to help make advances in these areas. The presentation on "Equitable Service Delivery: Opportunities & Challenges", made at the 2009 GBS Annual Review was an exception but we found no other examples. The Public Expenditure Review process has sought to provide policy analysis and solutions but has often fallen short of this objective[32]; moreover, it has been in abeyance for most of the evaluation period.

83. Finally, it is noteworthy that many of the policy issues of clear strategic and political interest to the Government – such as energy policy and agricultural policy – are addressed outside of the Budget Support dialogue. The Government's recent initiative to create a framework for more effective reform design and implementation, by drawing on the experience of Malaysia with the "Big Fast Results" approach has also been launched and developed by the President's Office outside of the Budget Support dialogue, even though an interesting presentation on the approach was included within the agenda of the 2012 Review.

Policy dialogue at the Sector level

84. Has the policy dialogue promoted at the sector level by Budget Support been more effective? In order to analyse this question, we have examined dialogue within the education and transport (infrastructure) sectors in a relatively detailed way, and in a more limited manner within agriculture, energy, health and water, where "mini case-studies" were conducted during the inception phase of the evaluation.

85. **All of the main sectors have established annual sector review processes based upon a**

[32] Most of the Public Expenditure Review reports are written with a problem-solving approach but the analysis is often insufficiently specific or detailed to really constitute a solution. The PERs have been more like the first step in a process of problem solving, for which the next steps unfortunately appear to be missing.

framework of annual performance targets, against which progress is reviewed in order to generate reports for consideration at the sector, cluster and national levels respectively. Although some of these sector review processes (including in education) have their genesis in sector-led 'Sector-Wide Approach' initiatives, sectoral stakeholders interviewed confirmed that the GBS process had contributed significantly to the overall coherence of the framework, the systematic use of indicators and the regularity of the annual sector reviews.

86. For the transport sector, our analysis has been based primarily on a documentary analysis of the reports from the Joint Infrastructure Sector Review (JISR) and the Budget Support Annual Reviews. This has been supported by a limited set of interviews with GoT and DP staff working in the sector. We have addressed two questions related to government ownership/ leadership and two related to the strategic/ problem-solving orientation. The results are shown in Figure 9 below. Two significant observations emerge:

- **There is an imbalance in the "joint-ness" of the review process, with negative consequences for ownership**. The JISR illustrates the same imbalance between DPs and Government that is noticeable in the PAF itself: the JISR operates as a method for the DPs to assess performance of the Government, with rather limited scope for the Government to assess the contributions of the DPs. Thus, mutual accountability is lacking and as a consequence the degree of ownership by Government is less than ideal.
- **By contrast, the JISR process scores better on its strategic/ problem-solving orientation.** The outcome indicators included in the JISR allow for a relatively clear identification of policy problems, and, for each of these problems, corrective measures are identified and targets established for subsequent years.

87. **In relation to the JISR process, there was no sense of a particular transaction cost problem** emerging either from the documentation or from the stakeholder interviews. The number of indicators and targets included in the JISR would appear to be appropriate, and annual meetings generally seemed to be managed efficiently from an administrative point of view, although it was reported that reports on indicators were often submitted late to the JISR and, in some cases, not at all.

88. **In comparison with other sectors, a relatively small and consistent set of transport indicators has featured within the GBS PAF over the evaluation period.** Over six years, only 14 indicators have been used (See Figure 8), as compared with 63 indicators in PFM, 20 in Education, and 20 in health. Three of the four Outcome Indicators appeared in every Annual Review and the one Underlying Process indicator remained present until 2011/12. Interestingly, over the six years, 67% of the Transport sector indicators were assessed as satisfactory, which may be partly explained by the consistency of the indicators included.

Figure 8 Transport Indicators included in the GBS PAF, 2007 - 2012

Indicator	Type
% of rural population who live within 2 km of an all-weather road	OI
% of trunk and regional roads network in good and fair condition (MOW)	OI
Time taken for a container from off loading until clearing from port (import data) (MOT)	OI
% of rural roads that are passable (good and fair) (PMO-RALG)	OI
Government amendments to the Civil Procedure Code (CPC) by October 2006.	TPA
Transport Sector Investment Plan finalized with adequate provision for maintenance and a framework for PPP	TPA
Draft Road Act to be submitted to Parliament by June 2007	TPA
Framework for PPP in the entire Transport Sector finalized and approved by September 2008	TPA
Establish a TANROADS Board based on the Roads Act by end February 2008	TPA
Road Safety Policy adopted by the Government by January 2008 and Road Safety Board in place by July 2008	TPA
Government improves port congestion situation by three key measures by June 2009: i) Tanzania Ports Authority presents a time-bound action plan for moving to Landlord Status; ii) TPA to submit a solid proposal to SUMATRA to approve increase in port storage tariffs and reduction in free time; and iii) GOV establish own area for impounded containers	TPA
Draft bill and regulatory framework for Private-Public Partnership submitted to Parliament by October 09.	TPA
Agree and Implement intermodal transport measures to ease movements of goods to and from Dar es Salaam Port. (MOT)	TPA
Infrastructure Sector Review (MoT, MoW)	UP

Source: PRBS Performance Assessment Framework, 2006/07 2011/ 12

Figure 9: Assessment of Qualitative aspects of the Infrastructure Sector Dialogue
Source: Evaluators' Assessment of qualitative aspects of JISR Annual Reports 2007 – 2011.

Qualitative aspects of the Sector Policy Dialogue	**FY 2006/ 2007**	**FY 2007/ 2008**	**FY 2008/ 2009**	**FY 2009/ 2010**	**FY 2010/ 2011**
OWNERSHIP: A) To what extent is the JISR an open joint assessment?	✓	→	→	!	!
OWNERSHIP: B) Does the JISR establish mutual commitments for all partners on an equal basis?	→	!	!	!	→
STRATEGIC/ PROBLEM-SOLVING: A) To what extent is the Annual Review focused on a strategic vision of sector issues?	✓	!	→	→	✓
STRATEGIC/ PROBLEM-SOLVING: B) To what extent is the JISR a solution-oriented exercise?	✓	→	→	→	✓

Rating: ✓ High → Medium ! Low

89. **The Education Sector has been less successful than the Transport/ Infrastructure sector in establishing an effective framework for sector dialogue.** A variety of problems were reported in the Education Sector Performance Report 2012, and also confirmed in interviews with sector stakeholders:

- **Firstly, the dialogue structure is unwieldy and high in transactions costs,** largely because it reflects the ambitions of the Education Sector Development Plan of 2001, which was driven by the aspiration to establish a "Sector-Wide Programme", which cut across functional responsibilities and roles. There are many Technical Working Groups (TWGs) and committees with overlapping mandates and confused roles.

- **The milestones which are the focus of education sector dialogue are too numerous, poorly linked to Government policy and not conducive to a genuinely strategic discussion.** In 2011/12, there were 13 milestones and 57 specific actions linked to them. The ESPR 2012 reported that they were poorly aligned with government priorities and not linked to the pattern of budget allocations (which perhaps explains why many have remained unimplemented.) While much time is dedicated to the discussion of these milestones, for which there is no real ownership, issues of more genuine strategic concern remain off the agenda.
- **There is also felt to be a disconnect between education sector dialogue and GBS processes,** with a lack of clarity over the role and status of the Cluster Working Group and some uncertainty over which stakeholder is representing the sector at the GBS level. GBS dialogue is seen as a parallel process, poorly linked to the sector level dialogue[33].

90. For all these reasons, sector-level dialogue is not perceived to have a strong impact on education policies and processes. Moreover, while it may be too early to reach a definitive judgement on this question, the evaluation team found no evidence that the shift towards higher SBS funding since 2007/08 had made a positive difference to the effectiveness of policy dialogue in the sector.

2.4. Contributions to Capacity Building

91. The provision of technical assistance and capacity building is generally perceived as the third element of the "Budget Support package". Such inputs would normally be focused on aspects of policy, institutional reform and monitoring linked directly to the Budget Support dialogue - such as support to the monitoring of the PRSP and to the development of statistics, or to PFM reform.

92. **In Tanzania, Budget Support-related TA and capacity-building arrangements are notably absent.** There are two principal reasons for this:

- Firstly, Budget Support is now a mature instrument in Tanzania, having formally started in 2001/ 02. Thus, while in its earlier stages the advent of Budget Support did prompt the recognition of the need for technical and capacity building support to PFM reform, PRSP monitoring, national statistical systems and various aspects of policy and budget formulation (including the Public Expenditure Review process), the support provided to such functions

[33] In transport too, the TPAs selected for inclusion in the GBS PAF are not representative of the wider range of issues and targets agreed at the JISR. For example, at the JISR level, the alignment of budget allocations with approved budgets has been a significant point of discussion but it is not reflected in the PAF, which gives greater weight to the promotion of Private-Public Partnerships and to easing Port Congestion. This may reflect an appropriate division between issues of operational significance at the sector level and issues of national strategic importance, but the relative roles of each Review remain unclear and this causes some frustration for sectoral stakeholders.

was in most cases concluded in the early years of the current evaluation period[34].

- Secondly, a wide range of Government interviewees expressed the view that there is a general "technical assistance fatigue" in Tanzania. Interviewees reported that this was in part a reaction to the high levels of long-term technical assistance, which were provided in the 1980s and 1990s, and which – rightly or wrongly – have come to be negatively perceived by the Government of Tanzania.

93. **The absence of such arrangements is thus the consequence of a lack of demand for such support by Government**. A small number of the Budget Support operations evaluated include provision for technical assistance and a number of agencies also have framework contract arrangements, which allow both local and international TA to be procured relatively quickly. However, BSG stakeholders reported that these facilities had remained largely undisbursed. A notable exception is within the transport sector, where TA facilities provided in the framework of the EU SBS arrangement have been drawn upon by Government to provide support to policy and planning functions.

94. **On the other hand, studies report significant capacity gaps in relation to policy-making, budget formulation and reform implementation.** (IMG, 2010; PEFA assessment, 2009) As we note in Chapter 3, these capacity gaps are limiting the effectiveness of the National Budget and, by implication, of Budget Support. There are examples internationally of capacity-building and technical assistance arrangements, which have helped Developing Country governments in meeting such capacity gaps. The fact that there is no demand for such support is perhaps a symptom of the weakness in the Budget Support partnership but, whatever the cause, it is slowing down unnecessarily the development of organisational and institutional capacity.

95. **By contrast, a variety of technical assistance arrangements are in place to provide technical and administrative support to the BSG secretariat and to the various secretariats of the DPs' Groups.** These TA support arrangements carry a high profile because they provide significant administrative support to the different tiers of the Budget Support dialogue, and also provide funding for studies and high-level advisory inputs, aimed at assisting the DPs to carry out their roles within the Budget Support dialogue.

96. **There is some evidence that these arrangements may have inadvertently served to undermine Government ownership of the Budget Support process**:

- Government staff report that most of the studies and technical outputs generated by these arrangements are made available in the first instance to the DPs, rather than being tabled as independent inputs for the mutual benefit of all parties in the Budget Support dialogue, including Government and, where appropriate, civil society.

[34] The continued support to the National Bureau of Statistics represents an exception but this process has taken on a momentum of its own, such that it would now be incorrect to describe it as a "Budget Support input". It continues to receive substantial technical assistance but these arrangements are quite separate to the Budget Support process and would continue in its absence.

- The volume of this TA support appears to exceed the real needs and, as a consequence, it may inadvertently have taken up administrative and organisational functions, which should more properly be managed by Government staff.

97. We believe that a review of the existing TA arrangements for the BSG Secretariat would be in order. This should aim to assess whether the current scope of work is appropriate and to examine whether there would not be room for more creative arrangements, which would also serve to build Government capacity to coordinate the Budget Support process. We also believe that more consistent and determined efforts need to be made by Government and its Partners to find constructive models of technical assistance and capacity building, which could address GoT's capacity gaps, without impinging upon its ownership of public policy formulation and implementation processes.

2.5. How the Budget Support design has changed and why

Evolution of the Budget Support design over the evaluation period

98. The stated objectives of Budget Support, its underlying principles and the overall management framework, as established in the 2006 Partnership Framework Memorandum, have remained unchanged. However, changes in other design features have occurred (Table 11):

- The scale of Budget Support peaked during the three fiscal years 2007/08 – 2009/10, and in nominal Tanzania shillings has since declined by 11% from that 3-year average[35].
- The number of partners providing Budget Support has reduced, from 14 to 12, with the withdrawal of the Netherlands and Switzerland[36].
- SBS was introduced in 2007/ 08 (for Education). By 2011/ 12 it comprised 18 % of disbursements, due to the additional financial weight of the EU's Road SBS, and of DFID's Education SBS.
- There has been increasing recourse – by the EU, Danida, Switzerland and more recently by DFID and Sida - to the use of "variable" or "performance" tranches, in which the value of disbursements has been linked to the attainment of specific results.

[35] In 2009/10 Budget Support disbursements were boosted by supplementary allocations from the World Bank and the EU to compensate for the global financial crisis and the rise in food prices. For this reason, we have chosen to compare the 3-year average of the peak years with the average of the most recent 2 years. The same analysis in dollar terms, where the effects of inflation are less distortionary, shows a 27.6 % decline.

[36] The Netherlands initially suspended disbursements for a year, due to a 'lack of sufficient action to improve the business environment', drawing their evidence in part from the PAF, and in part from the case of a Dutch businessman, who was considered to have been treated in an irregular manner through the Tanzanian court system. In the subsequent year, all Budget Support worldwide was stopped by the Netherlands following a change in policy. SECO stopped budget support to Tanzania, after it was removed from the SECO list of priority countries, but the closure could potentially have been delayed if SDC had supported a continuation.

Table 11 Evolution of the Design features of Budget Support 2005/ 06 – 2011/ 12 (TSh millions)

	Total Annual Disb. (TSh)	% GBS (%)	%SBS (%)	Number of BS Partners	Number of BS Operations	Operations with Variable or Performance Tranches
2005/06	591,711	100	0	14	13	2
2006/07	790,334	100	0	14	14	4
2007/08	963,397	100	0	14	14	4
2008/09	940,646	93	7	14	15	6
2009/10	1,214,665	95	5	13	15	6
2010/11	919,787	88	12	12	12	6
2001/12	947,391	82	18	12	14	7

Sources: External Finance Department, MoF; Budget Support agreements from individual DPs

99. In addition to the increased use of “variable” or “performance” tranches, **changes in the approach to performance assessment were introduced by DPs from 2007/ 08 onwards, which led to a higher level of disbursement conditionality.** As shown in Table 8, there was an increase in the overall number of PAF indicators, and especially in the number of Temporary Process Actions, which are conditions directly reflecting specific reform actions to be taken. There was also a move to assess indicators more precisely, leading to definitive judgements on achievement of PAF targets, rather than an acceptance of compromise positions (‘partly met’, ‘partly achieved’, etc). There were consequently four indicators in 2008/09 and two in 2009/10 on which agreement over the assessment could not be reached, which had not happened previously.

Motivations for the Design Changes to the Budget Support process

100. **Why were these changes to the Budget Support design framework introduced?** We have first analysed in detail the reports of the respective Annual Reviews, in order to assess how far the ratings of the PAF indicators give clear indications of the reasons for these design changes. Claussen & Martinsen (2011) present an analysis of the indicators classified as achieved, and we have extended this analysis to 2010/ 11, using the same criteria[37]. Results are presented in Figure 10 and Table 12. The corresponding aggregate ratings in the Annual Review reports were ‘Moderately Satisfactory’ for 2004/05, ‘Satisfactory’ for 2005/ 06, ‘Moderately Satisfactory’ for 2006/07, 2007/08, 2008/09 and 2009/10, and ‘Satisfactory’ for 2010/11 and 2011/12.

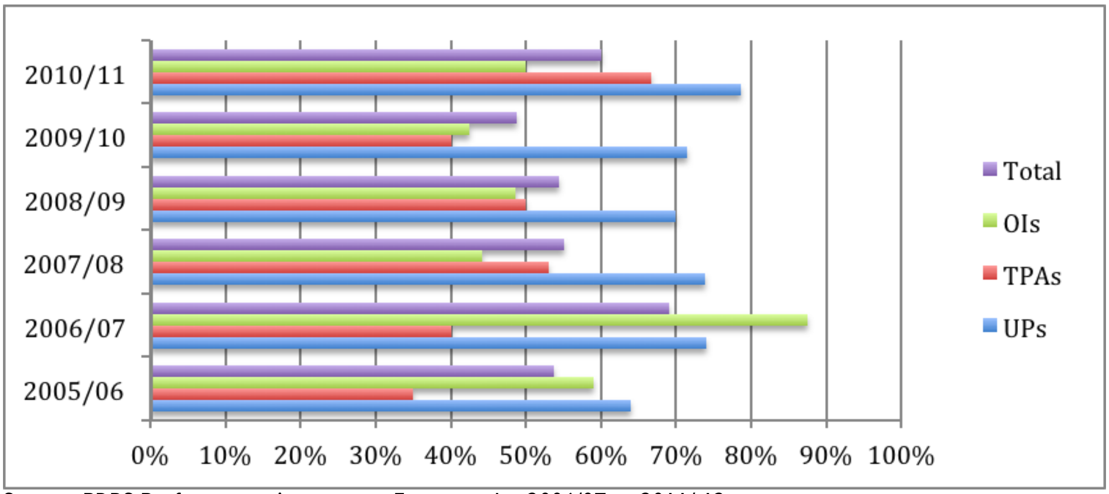
101. **This PAF analysis gives an ambiguous picture of the level of performance, which does not serve to explain the increased conditionality, evidenced from 2007/08 to 2009/10, nor the reduction in overall disbursements in 2010/11 and 2011/ 12**:

- Overall performance against the PAF, and against each of the three types of indicators, actually improved from 2005/06 to 2006/07, the year prior to the “conditionality shift” – indeed 2006/07 shows the best PAF performance of the whole evaluation period.

[37] Following Claussen & Martinsen, indicators are rated as achieved when actions/ processes have been fully completed or considered satisfactorily implemented and when an agreed target has been achieved. All other ratings applied in Annual Reviews, such as “partly met”, “partly achieved”, etc. are considered as unachieved.

- Overall performance declined over 2007/08 – 2009/10, before improving again in 2010/11 but only in one year (2009/ 10) were less than 50% of the indicators assessed as achieved.
- Performance against Underlying Processes has been consistently good, with an average achievement level of 72% over the evaluation period.
- Lower achievement rates are recorded for TPAs and OIs over 2007/ 08 to 2009/ 10, but given the expanded numbers of such indicators in these years, this may reflect the difficulties of addressing a larger number of targets, rather than any trend decline in performance.

Figure 10: PAF Indicators assessed as achieved, in total and by type of indicator



Source: PRBS Performance Assessment Frameworks, 2006/07 to 2011/ 12

Table 12: PAF indicators assessed as achieved in total and by type, 2004/05 - 2010/ 11

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Eval. Period Average
UPs	0%	64%	74%	74%	70%	71%	79%	72%
TPAs	58%	35%	40%	53%	50%	40%	67%	47%
OIs	100%	59%	88%	44%	49%	43%	50%	55%
Total	58%	54%	69%	55%	54%	49%	60%	57%

Source: GBS Annual Review Reports 2005 - 2011; Claussen, J & Martinsen, M., 2011

102. There are important aspects of the performance record, which these raw numbers do not capture. In particular, several of the areas of poor performance within the PAF related to policy questions which were accorded greater importance by the DPs because of their direct relationship to service delivery, poverty reduction and growth, notably (i) the slowness in implementation of PFM reforms, (ii) the continued inability to redress the imbalances in the allocation of financial and human resources to disadvantaged districts, (iii) the slow implementation of anti-corruption measures and (iv) the slow progress in improving the business environment.

103. In each of these areas, the performance record (as assessed by the PAF) has been consistently poor during the evaluation period, and displays only marginal changes between the years of 'satisfactory' and 'moderately satisfactory' years. So why then should concern over slow

performance in these areas have reached a 'tipping point' in 2007/ 08?

104. As we noted in Section 1.2, the context for Budget Support changed radically during 2007:

- 2007 was the year in which the EPA and Richmond power scandals hit the press, prompting serious concerns within the BSG over the extent to which the underlying principle concerning 'the active fight against corruption' was being adequately respected.
- In late 2007, the disappointing poverty outcomes recorded in the 2007 HBS were revealed, prompting concerns over the effectiveness of policies and strategies for poverty reduction.

105. Most stakeholders interviewed, from the Government and from the BSG, agreed that it was the combination of the corruption cases and the disappointing HBS results, which prompted a more negative view of performance against the PAF. The DFID/ Irish Aid Country Programme Evaluation (Thornton, P. et al, 2011) also reached this conclusion.

106. There is no doubting the relevance to the assessment of the underlying principles of Budget Support of the HBS and of the response to the corruption cases. Yet, the way in which decisions over Budget Support disbursements and design were reached points to two major weaknesses at the heart of the GBS/ SBS assessment process:

- Firstly, the PAF itself displayed fundamental weaknesses as a tool of performance measurement. Arguably, some of these weaknesses are inherent in any system of target-based assessment, suggesting that such an exclusive reliance on the PAF instrument was itself inappropriate. But, even in comparison with such frameworks in other countries, the PAF had significant technical weaknesses. These comprehensively undermined the contributions, which the Budget Support policy dialogue might have made to the Government's systems of policy review and formulation.
- Secondly, it suggests that the baseline political, institutional and socio-economic assessments underlying the design of Budget Support arrangements were also weak, leading to a set of unreasonably high expectations in relation to poverty reduction and reform implementation.

107. The stakeholders interviewed confirmed that the results of the 2007 HBS came as a shock to the majority of the Budget Support partners. Yet the 2005 evaluation (Daima Associates & ODI, 2005) had given ample warning of the likelihood of poor results:

> *'...Notwithstanding the increased rates of GDP growth achieved in recent years, commensurate reductions in poverty have not been achieved. This is predominantly because the structure of growth is skewed towards urban rather than rural areas, towards mining and services rather than agriculture and towards the richer rather than the poorer. If the Tanzanian Government does not introduce significant policy and institutional changes, then this situation will continue. ....'* (Op. cit., p.142)

108. The 2005 evaluation also identified institutional and capacity weaknesses that were likely to hinder the pace at which PFM and other public sector reforms could effectively be introduced:

> *"At the same time, there remain weaknesses in MoF capacity.... a particular weakness is the limited*

capacity for scrutiny of the resource allocation choices of spending ministries – a weakness we refer to as the lack of an effective 'budget challenge'".

'On the service delivery side, while access has improved, the poor still predominantly fail to use government services and in large part this is due to shortfalls in efficiency and in quality. …at the output level: the efficiency of public expenditure remains low, intra-government incentives … remain weak and the democratic pressure that might drive improvements is substantially absent.' (Ibid, p.142)

109. **We conclude that there were significant deficiencies in the relevance of the initial Budget Support "package", which were exacerbated rather than improved through the changes made after 2007.** The 2005 Budget Support evaluation showed that there were policy and institutional problems present in 2005, which were likely to reduce the effectiveness of the Government's poverty reduction strategy and the ability of the Government to achieve fast implementation of PFM and other reforms. Yet, the Budget Support package was largely limited to financial resources, with inadequate attention to the additional inputs, which might have helped to address these policy and institutional problems. Capacity building inputs, provided through or in conjunction with Budget Support, were very limited. The nature of policy dialogue was focused excessively on disbursement indicators and was never truly geared to constructive, problem-solving policy dialogue. Moreover, its structure required DPs to combine the roles of "auditors" and "partners in dialogue", which inevitably undermined the quality of exchanges on policy issues.

110. The Budget Support design changes introduced from 2007 served to further undermine the quality of dialogue, reducing further the extent of Government ownership, increasing transaction costs, reducing the quality of the PAF as a performance assessment tool, and moving further away from constructive, problem-solving dialogue. Whilst the DPs' concerns over the disappointing HBS results and over the response to the EPA and Richmond scandals were legitimate, the changes in the Budget Support design which they prompted served only to deepen feelings of distrust and to move further away from a constructive policy dialogue.

3. Facilitating improvements in Government policies: the induced Outputs of Budget Support

111. The analysis of Chapter Two has provided the basis for understanding how Budget Support has been inserted into the public spending and policy-making process and with what immediate effects. Chapter Three completes Step One of the analysis, considering how far Budget Support has facilitated improvements in Government policies and practices. It thus considers the "induced outputs" of Budget Support, comprising level 3 of the framework.

112. Chapter 3 examines the changes evidenced in the financing and institutional framework for public spending, public policy, policy management and service delivery and assesses how far these might be attributed to Budget Support. In particular, it has considered: (i) the changes in the overall macroeconomic and fiscal position of Government; (ii) the evolving status of PFM systems; (iii) the evolution in the sectoral composition of public spending; (iv) changes in the institutions of accountability and in the participation of citizens and Parliamentarians in the budgetary process; and (v) changes in the public administration systems linked to the delivery of services.

3.1. Macroeconomic management & revenue generation

113. The first EQ within level 3 of the framework examines the extent to which there have been improvements in the quality of domestic revenue mobilisation and macroeconomic management. Secondly, it considers how far such improvements can be attributed to Budget Support and, if so, to which mechanism of influence. It also examines whether Budget Support may have had any negative effects on macroeconomic management, notably through "Dutch Disease" effects, or through problems of monetary sterilisation.

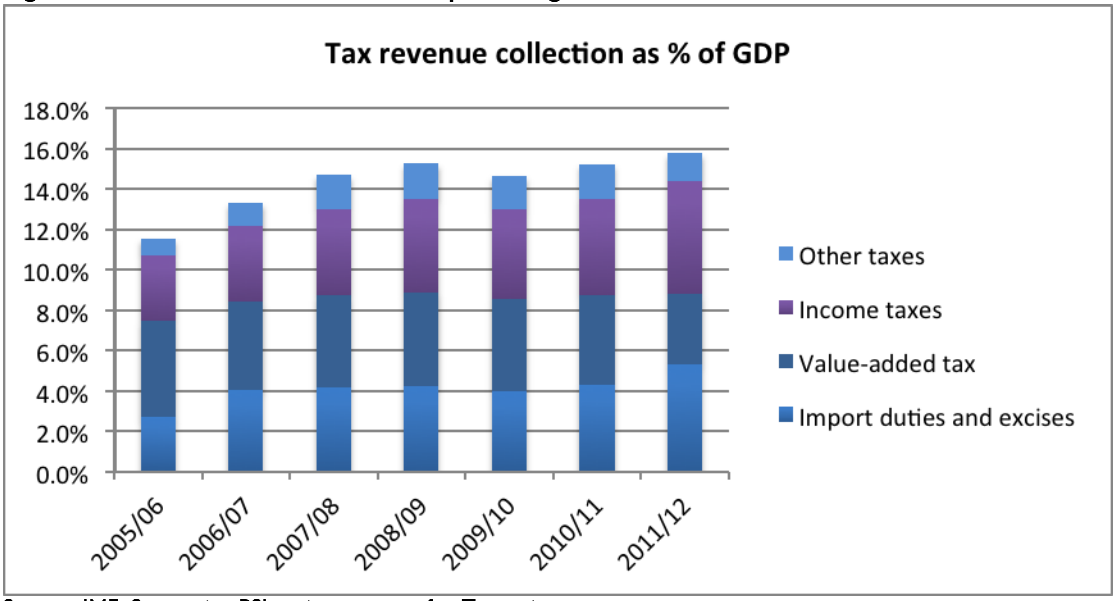
Domestic revenue mobilisation and respect for fiscal policy targets

114. During the decade preceding the evaluation period, both domestic revenues and aid inflows expanded significantly: in real terms, domestic revenues increased 89% from 1994 - 2004, and aid inflows by 70%. (Daima Associates & ODI, 2005) Tax revenues continued to grow at the beginning of the evaluation period before reaching a plateau at around 15% of GDP from 2008/09 to 2010/11. In discussions, the International Monetary Fund (IMF) 5th Policy Support Instrument (PSI) review mission team attributed this flattening of revenue growth to the combination of three factors:

- the gestation period needed to put in place tax computerisation measures and to begin to reap the related benefits;
- the impact of the global financial crisis, which led to a slowdown in economic activity and to a reduction in imports, dampening growth in import and excise duty receipts; and

- the effects of the policy reaction to the global financial crisis, notably the reduction in the rate of VAT to 18 %.

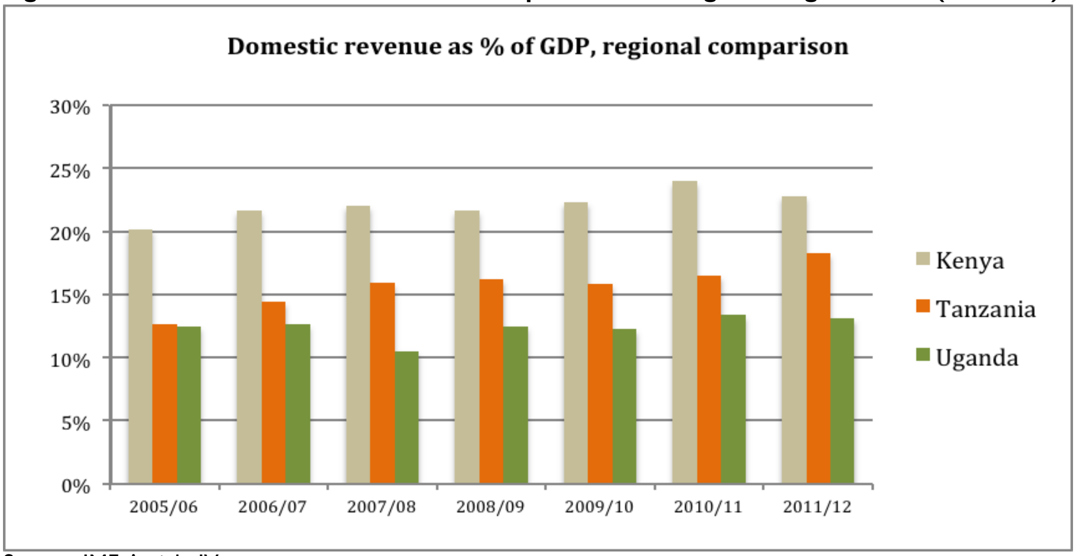
Figure 11: Trends in tax collection as a percentage of GDP



Source: IMF: Successive PSI review reports for Tanzania

115. **Tax and non-tax revenues picked up substantially in 2011/12 and are programmed to rise further during 2012/13** (Figure 11). These improvements were partly due to reforms to tax administration systems (notably, improved taxpayer registration, improved enforcement, and strengthening of TRA audit capacity), and partly to the recovery of imports. Legislation to remove certain tax exemptions was also presented before Parliament, with the 2011/12 budget and, although not approved in full, this did impact positively on revenue growth.

Figure 12: Domestic revenue collection in comparison with neighbouring countries (% of GDP)



Source: IMF Article IV reports.

116. **At the outset of the evaluation period, Tanzania and Uganda collected very similar percentages of GDP in domestic revenue and Tanzania has significantly out-performed Uganda over the subsequent years.** In comparison to Tanzania's neighbours,

domestic revenue collection as a percentage of GDP falls between Kenya and Uganda (Figure 12). The leading position of Kenya reflects its longer history of tax reform, and the comparatively smaller size of the informal sector.

117. Despite Tanzania's relatively strong performance in revenue collection over the evaluation period, there is potential for significant expansion of the revenue base. The government is pursuing administrative measures to bring more of the informal sector into the tax base, and has also introduced increased rates for some existing taxes (notably excise taxes). While more may be possible through better enforcement, the IMF has argued that tax policy measures – including measures to reduce exemptions – are needed to expand the tax base (IMF 2010). Some tax exemptions were removed in the 2011/12 budget, despite opposition from the Legislature. The World Bank's Rapid Budget Analysis of 2012 estimated that tax exemptions amounted to almost 4 % of GDP, so there is scope for revenue growth if political support can be obtained for the removal of exemptions.

Table 13 Overview of Central Government Fiscal Operations during evaluation period

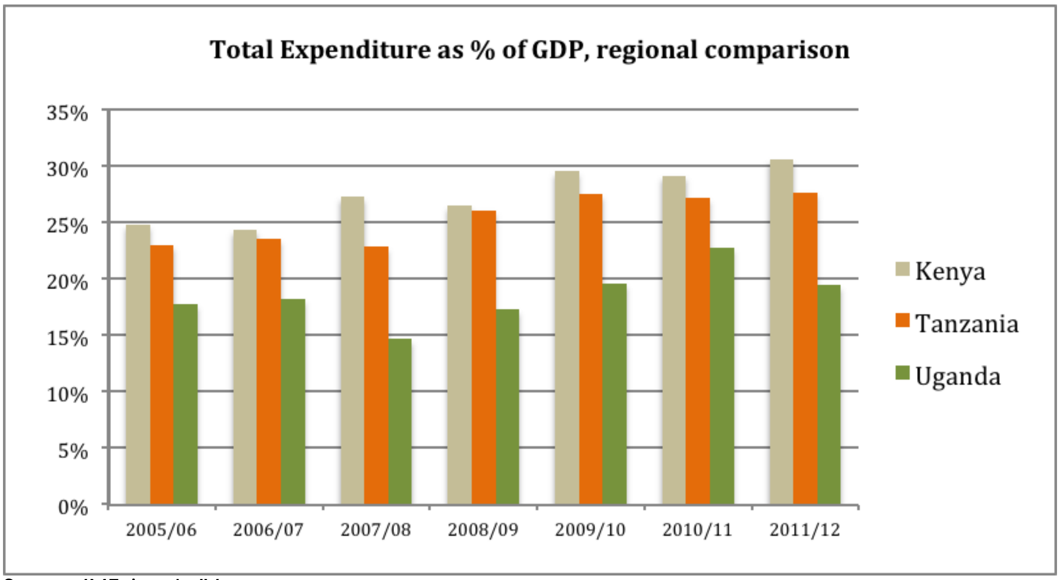
§	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Total revenue	**12.6%**	**14.4%**	**15.9%**	**16.2%**	**15.9%**	**16.5%**	**17.6%**
Tax revenue	11.5%	13.3%	14.7%	15.3%	14.6%	15.2%	15.8%
Nontax revenue	1.1%	1.1%	1.2%	0.9%	1.2%	1.3%	1.8%
Total expenditure	**23.0%**	**23.5%**	**22.8%**	**26.1%**	**27.5%**	**27.2%**	**26.2%**
Recurrent expenditure	17.3%	17.3%	14.9%	17.7%	18.8%	19.2%	17.0%
Wages & salaries	3.9%	5.1%	5.0%	6.1%	5.7%	6.7%	6.6%
Goods & Services, Transfers	12.1%	11.1%	8.7%	10.7%	12.3%	11.5%	9.3%
Interest payments	1.3%	1.1%	1.2%	0.9%	0.8%	1.0%	1.1%
Development expenditure	5.7%	6.2%	8.0%	8.4%	8.6%	7.9%	9.2%
Domestically financed	1.8%	2.7%	2.5%	3.4%	3.3%	2.8%	4.6%
Foreign financed	3.9%	3.6%	5.5%	5.0%	5.3%	5.1%	4.6%
Overall balance before grants	**-10.4%**	**-9.1%**	**-6.9%**	**-9.9%**	**-11.6%**	**-10.6%**	**-8.6%**
Grants	5.4%	5.0%	6.9%	5.1%	4.6%	4.7%	4.9%
Budget Support Grants 1/	2.0%	2.6%	2.6%	2.3%	2.1%	2.1%	1.6%
Other	3.4%	2.4%	4.3%	2.8%	2.6%	2.6%	3.3%
Overall balance after grants	**-5.0%**	**-4.1%**	**0.0%**	**-4.8%**	**-7.0%**	**-6.0%**	**-4.1%**
Adjustment to cash 2/	-0.5%	-0.9%	-1.6%	0.2%	0.6%	-0.9%	-0.9%
Overall balance (cash basis)	**-5.5%**	**-5.0%**	**-1.6%**	**-4.6%**	**-6.4%**	**-6.9%**	**-5.0%**
Financing	**5.5%**	**5.0%**	**1.6%**	**4.6%**	**6.4%**	**6.9%**	**5.0%**
Foreign (net)	3.3%	3.8%	3.2%	3.6%	4.6%	3.3%	4.2%
Foreign loans	4.0%	3.9%	3.4%	3.7%	4.8%	3.4%	4.4%
Budget Support loans 1/	1.5%	1.5%	1.6%	1.3%	1.9%	0.6%	0.6%
Other Concessional	2.4%	2.4%	1.8%	2.5%	2.9%	2.4%	1.9%
Non-concessional	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	1.9%
Amortization	-0.6%	-0.2%	-0.2%	-0.1%	-0.2%	-0.1%	-0.2%
Domestic (net)	2.1%	1.2%	-1.6%	0.8%	1.9%	3.6%	0.8%
Bank financing	0.8%	0.1%	-1.5%	0.8%	1.9%	2.6%	0.2%
Nonbank financing	1.3%	1.1%	0.0%	0.0%	-0.1%	1.0%	0.6%
Amortization of Parastatal debt	-0.1%	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%
Privatization proceeds	0.2%	0.0%	0.0%	0.2%	0.0%	0.0%	0.0%

Source: IMF PSI reviews for successive years, including 5th PSI Review, published January 2013
1/ Data on Budget Support Grants and Loans is from the Aid Management Platform, MoF.
2/ Unidentified financing (+) and expenditure (-). Includes expenditure carryover from the previous year.

118. **Total public expenditure has grown by slightly more than three percentage points of GDP, which is less than the revenue growth achieved**. (Table 13.) The authorities have succeeded in keeping recurrent expenditure to 17% of GDP in 2011/12, bringing it once again to a level sustainable from domestic resources. The relative importance of the wage bill within recurrent expenditure has increased over the evaluation period (rising from 3.9 % to 6.6% of GDP). This reflects both the growth in staffing in the social sectors and the general increases in the salaries of public servants, which have been introduced.

119. **Development expenditure has increased steadily throughout the evaluation period**, from 5.7 % of GDP in 2005/06 to 9.2% in 2011/12. Within this, the growth of domestically-financed development expenditure has been especially marked, rising from 1.8% of GDP in 2005/06 to 4.6 % in 2011/12. The overall increase in public expenditure has been more rapid than in Tanzania's neighbours (Figure 13) but the balance achieved between development and recurrent spending has ensured that this should be sustainable and growth-enhancing, through limiting recurrent spending to the level of revenue growth and focussing development spending on the investment needs of the agriculture, infrastructure and energy sectors. (See Section 3.3).

Figure 13: Total Expenditure as percentage of GDP, Tanzania, Uganda and Kenya



Source: IMF Article IV reports.

120. **Following an increase in the fiscal deficit during the years of the global financial crisis, its level has fallen closer to a sustainable level in 2011/12, although further reductions will be needed to stabilise the debt position.** Over 2008/09 to 2010/11, there was an increase in the fiscal deficit both before and after grants. Increased Budget Support allocations from the World Bank and the EU helped to cover financing needs but an expansion in domestic financing and in the use of non-concessional external financing also proved necessary. Nevertheless, an updated Debt Sustainability Analysis by the IMF (IMF, 2013) shows that the risk

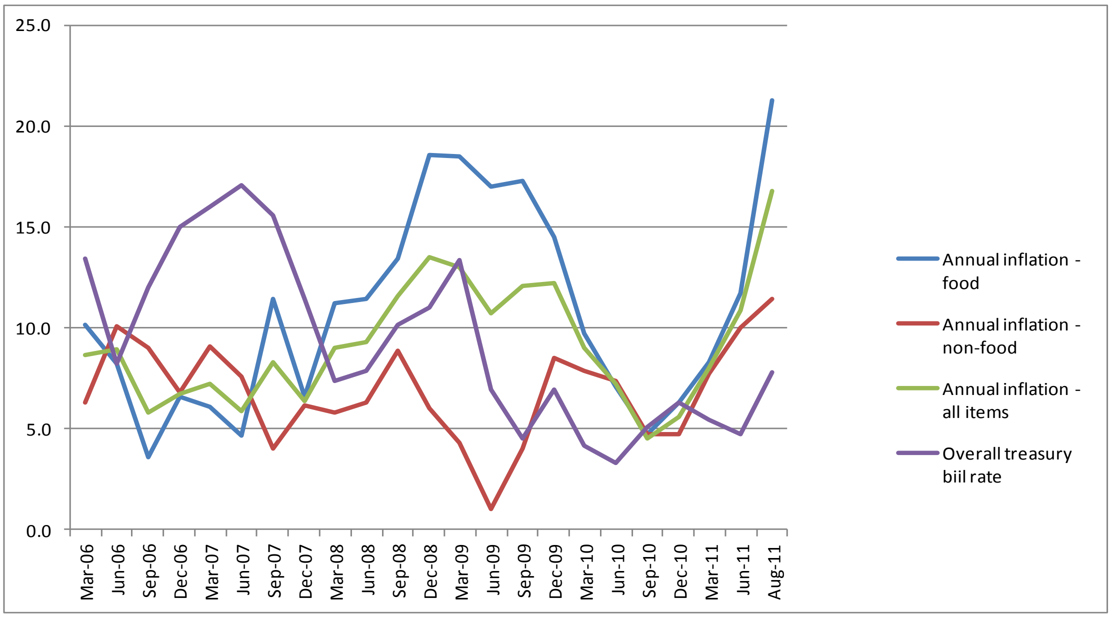
of debt distress is low, so long as the PSI ceiling on external non-concessional borrowing continues to be respected.

121. **Throughout the evaluation period, Tanzania has remained on-track with the IMF PSI programme, despite the difficulties generated by the global financial crisis.** The majority of performance/ assessment criteria have been fully observed, and structural benchmarks have been met, although occasionally with delays[38].

Macroeconomic stability and inflation

122. **Tanzania has weathered the impact of both the global financial crisis and regional droughts relatively well and GDP growth has remained buoyant throughout the period at 6-7 % per annum.** Inflation has fluctuated considerably, mostly as a result of supply-side shocks for domestically produced goods and services (in particular food, electricity and transport) and imported goods (including oil and food). Monetary policy was initially relaxed in order to facilitate the economy's adjustment to these price shocks but it has since been tightened and inflation is expected to return to single digits by end 2012/13 (IMF, 2013).

Figure 14: CPI Inflation and Treasury Bill Rate (%) 2006 – 2011



Source: Bank of Tanzania

The contribution of Budget Support to macroeconomic developments

123. In relation to macroeconomic developments, we therefore have the following findings:

- Domestic revenue mobilisation increased by five percentage points of GDP over the evaluation period, out-performing Uganda and narrowing the gap with respect to Kenya.

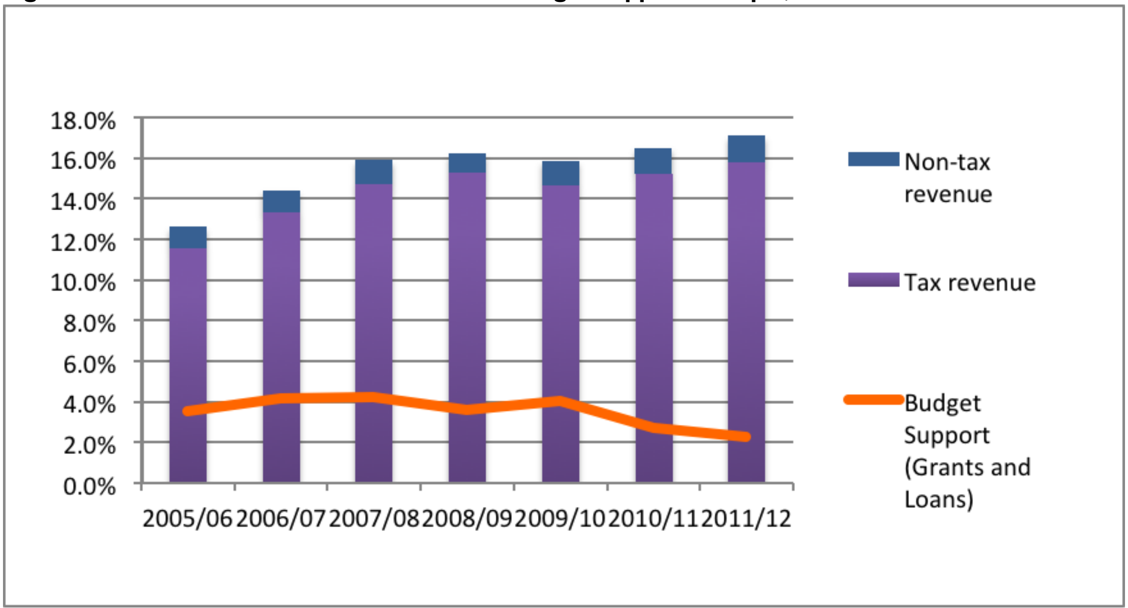
[38] The most recent delay relates to the policy measures being taken to control the contingent liabilities arising from TANESCO losses due to its recourse to (substantially more expensive) thermally generated power in the face of the sharp fall in hydropower generation due to successive droughts. A cost of service study (COSS) was finalised in December 2012. In the light of the COSS, EWURA – the national utilities regulator – recommended an average tariff increase of 29.5 %.

- Total spending increased by three percentage points of GDP over the period, as a consequence of expanded development spending, and in particular of domestically-financed development spending.
- Recurrent expenditure fell to 17% of GDP in 2011/12, a level that could be more than sustained by domestic revenues alone.
- The fiscal deficit fluctuated in response to the global financial crisis, returning closer to a sustainable level in 2011/12, although further reductions are needed. Despite the consequent rise in the stock of debt, current debt levels are deemed sustainable.
- GDP growth has remained buoyant throughout the period at 6-7% per annum, and although inflation rose sharply over 2010 and 2011, it is projected to return to single digits by end 2012/13.

124. **By any standards, this is a strong performance on macroeconomic management and particularly so in the light of the additional pressures generated by the global financial crisis and the prolonged domestic drought.** To what extent has Budget Support contributed to this?

125. The first area we examine is the direct funding effect of Budget Support. **Without doubt, the growth noted in the level of domestically-financed development expenditure** – from 1.8% of GDP in 2005/06 to 4.6% in 2011/12 – **could not have been achieved in the absence of Budget Support,** without increasing the fiscal deficit and the stock of debt towards unsustainable levels.

Figure 15: Central Government revenue and Budget Support receipts, 2005/06-2010/11



Source: MoF and IMF data (Red line represents Budget Support receipts.)

126. **Budget Support has also served as a stabilising source of funds during the period of the global financial crisis**, with disbursements peaking in 2009/10 (at a level of approximately

US $900 million), and then subsequently declining, as domestic revenues recovered. (Figure 15). This was largely a consequence of the increased disbursements provided by the World Bank and the EU[39]. In addition, to the PSI programme, the IMF also provided additional financial support in 2009, through the Exogenous Shock Facility, to help alleviate the effects of the global financial crisis. Fortunately, the combination of corrective fiscal measures by Government and additional financing through Budget Support has meant that the facility has remained largely undisbursed.

127. To what extent have budget support flows had unintended negative effects? We consider three potential problems, which might be caused by excessive Budget Support flows:

- Disincentive effects on domestic revenue collection efforts;
- ‘Dutch disease’ effects;
- Difficulties in implementing monetary sterilisation, to avoid the potential inflationary effects of large foreign exchange inflows.

128. It is difficult to examine the potential disincentive effects of Budget Support flows on domestic revenue mobilisation because it is not clear which counterfactual ought to form the point of comparison. Is it the case that in the absence of Budget Support, the incentives to accelerate domestic revenue mobilisation would be greater? Or is it rather that the incentives of a Government, anxious to expand development spending, are so strong that they would be unaffected by the parallel growth of an alternative funding source? Could Budget Support flows actually help to increase revenue growth by facilitating budget increases for the revenue collection agency? The data presented in Figure 15 shows that domestic revenues grew in step with Budget Support flows in the first three years of the evaluation, that their respective growth rates stabilised over 2008/09 and then diverged from 2009/10 onwards. There is thus no obvious relationship between the two trends[40], but there is evidently a third factor – namely the global financial crisis, which has influenced both trends, slowing down domestic revenue growth while promoting a counter-cyclical expansion of Budget Support disbursements by the World Bank and the EU.

129. Therefore, a simple analysis of the numbers does not provide conclusive evidence of a positive or negative correlation. However, in discussions with the Tanzanian authorities and with the IMF PSI mission regarding the revenue measures introduced over the evaluation period, the evaluation team were convinced of the very strong commitment of the Executive to increase levels of domestic revenue mobilisation. **Put simply, the desire for higher revenue growth is too strong to be affected by the presence of Budget Support as an alternative funding**

39 How effectively this process was coordinated with the Budget Support Group as a whole is a moot point, however. 2009/10 was the year in which the PAF assessment was least favourable (See Chapter 2), and some BSG members reduced disbursements as a result, although the effects of these minor reductions were dwarfed by the doubling of diisbursement levels achieved by World Bank and the EU.

40 Unlike the 1997-2004 period analysed in the 2005 evaluation, where the two funding sources showed a strong positive correlation. (Daima Associates & ODI, 2005)

source. This view is also supported by the strong performance of Tanzania in comparison with Uganda and Kenya.

Table 14:Real effective exchange rate and aid receipts (2005/06 – 2010/11)

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Real effective exchange rate (% change on previous year)*	-6.5	-3.2	3.7	6.3	0.3	-13.4
Budget Support receipts (TSh billion)	428	592	790	963	941	1,215
Total ODA (Tsh billion)	1,461	2,249	2,405	2,550	2,918	2,883

*Note: Positive values represent an appreciation. Negative values represent depreciation.

Source: MoF and IMF.

130. A Dutch disease effects occurs where aid flows (or natural resource exports) sharply increase the availability of foreign exchange, leading to an appreciation in the real exchange rate. This reduces the income of the traditional export sector, forcing its relative contraction. During the evaluation period, the movement of the real effective exchange rate has been erratic (see table 14). The pattern appears to be poorly correlated with respect to aid flows, which suggests that other factors – such as fluctuations in imports due to mining and other investments, have over-ridden the impact of changing aid flows.

131. The monetary sterilisation problem is potentially more significant and is more relevant to budget support because of the lumpiness of the foreign exchange flows which it typically provides. The evaluation team compared the chronology of budget support disbursements with Treasury Bill rates. For the initial years, there is a pattern of interest rates reacting to the GBS/ SBS disbursements, normally with a delay of one quarter. From 2007/08 Q3 to 2008/09 Q2, there was a significant increase in Budget Support disbursements, with a corresponding increase in interest rates. In 2008/09 Q3, disbursements decreased sharply, and interest rates subsequently fell in the next quarter. This positive relationship continued through 2009/10, but appears to have come to an end in 2010/11.

132. This suggests that there may have been some significant sterilisation requirements during the evaluation period, but that the government has more recently "stock-piled" foreign exchange reserves in order to smooth the foreign exchange flow, and reduce the need for monetary sterilisation through Treasury Bill sales. Discussions with BoT and with the IMF PSI mission confirmed that this was indeed the case, although the monetary sterilisation problem was seen to be likely to be more acute with regard to natural resource investment related inflows. It was also explained that the BoT had adopted a more proactive communication policy with the main participants in Treasury Bill auctions, providing more advanced notice of the volumes expected to be auctioned so as to facilitate a more structured demand response, and thus less volatility in interest rates.

133. **There is evidence that budget support-related dialogue may have had a modest additional influence on government policy over what would have been achieved**

purely through the IMF's Policy Support Instrument. The Government has a good track record with the IMF over many years, dating back to 1997 – long before Budget Support and its related processes had become significant. Interviews with the IMF, MoF and BoT all confirmed the political commitment to good macroeconomic management, in recognition of its importance to business confidence, FDI flows and continued growth and poverty reduction. The maintenance of a stable macroeconomic situation is, of course, an eligibility criterion for GBS and SBS but we conclude that Government would pursue a stable policy even in the absence of this criterion. On the other hand, the policy dialogue around the PAF has encouraged a prudent fiscal stance and has probably enhanced awareness of its crucial importance. Furthermore, in addition to the basic macroeconomic targets in the PAF, targets have also been added relating to the reduction of arrears in the road and energy sectors. The IMF expressed the view that this had given added weight to the corresponding performance criteria and structural bechmarks included in the PSI.

3.2. Public Finance Management systems

134. EQ 3.2 analyses to what extent there have been improvements in the quality of PFM and how far these improvements may be attributed to Budget Support. We address this question in four parts:

- We examine first the nature of the PFM reform process, which has been put in place, and its relationship to the Budget Support process;
- We then consider the evidence on the actual impact of these reforms on PFM systems and processes, drawing predominantly on the PEFA assessments of 2006 and 2009;
- We consider the relevance of the current reform programme in the light of the progress made and the continuing challenges; and
- Finally, we assess the relative contribution of Budget Support.

The PFM Reform Process

135. The maintenance of sound budgeting and PFM systems is an underlying principle specified in the Partnership Framework Memorandum and government commitment to the implementation of a credible PFM reform programme is an explicit eligibility criterion for the provision of Budget Support for all of the BSG members. PFM reform has thus been a high profile area within the Budget Support dialogue, accounting for 20-30 % of the indicators in the PAF[41].

136. Government has shown a commitment to PFM reform since well before the evaluation period. The first integrated PFM Reform Programme was initiated in 1998, being subsequently updated on a periodic basis until the publication of the Public Financial Management Reform Programme (PFMRP) IV in June 2012, covering the five-year period 2012/13 – 2016/17. Each phase of the

[41] Over 2005/06 to 2010/11, 63 separate indicators were used to measure PFM processes, approximately 14 % of the total of 452 indicators. However, because several indicators remained constant and were used in more than one year, the average number of PFM indicators was 18, - 20-30% of the indicators in any single year.

reform programme has attracted substantial direct funding from the DPs, both through project arrangements and common basket funding, in addition to GoT funding through the Budget[42].

Evidence of improvements in PFM reform processes

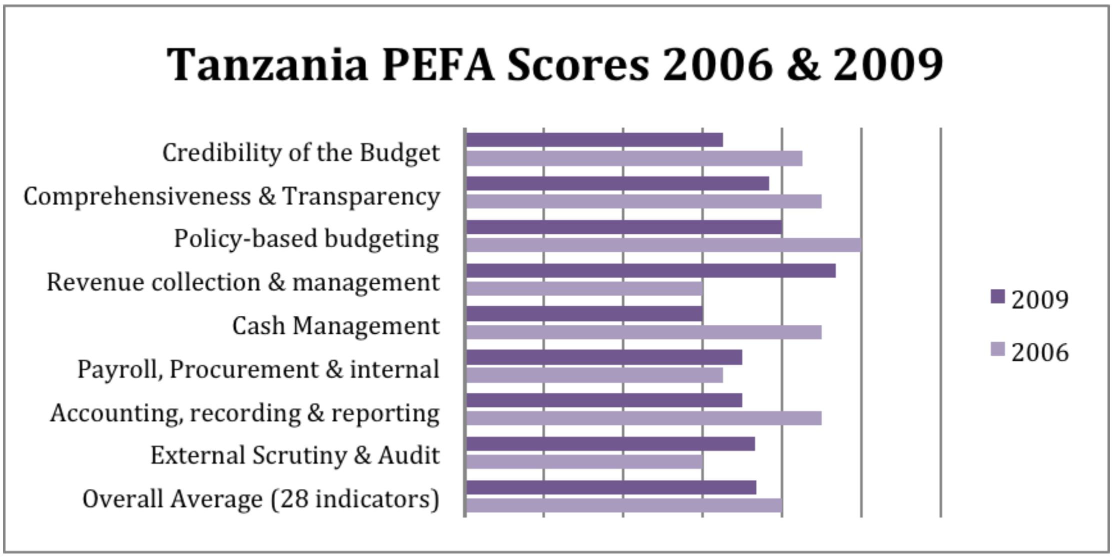
137. PFM reform was an important part of the Government agenda over 1995 – 2005, resulting amongst other things in the introduction of the Integrated Financial Management System (IFMS) in 1998, one of the earliest systems to be introduced on the continent. PFM systems were thus already at a relatively high stage of development, at the outset of the evaluation period. Since 2005, important legal and institutional changes have been introduced to the PFM system, notably:

- The passing of the Public Audit Act of 2008, enhancing the operational independence of the National Audit Office (NAO);
- The updating of the Public Finance Act of 2001, through an Amendment in 2010;
- The publication in 2005 of the Regulations for the Public Procurement Act of 2004, and its subsequent amendment in 2011, which together allowed for the creation of the Public Procurement Regulatory Authority and the Public Procurement Appeals Authority;
- The establishment of the Internal Audit Department within MoF, as the coordinating and regulatory authority for the development of Internal Audit processes.

138. Alongside these institutional changes there has been steady progress in consolidating and rolling-out the IFMS system, so that by 2010, it was covering all central government ministries (except the Ministry of Defence and the State House), as well as the 22 regional sub-treasuries and 86 LGAs, with coverage extended to 133 out of 167 LGAs at end 2011/12 (IMF, 2013). The capacity of the NAO has been steadily strengthened, allowing for improvements in the quality and timeliness of audit reports, and through the PFMRP there has been a steady strengthening of systems and capacities across the full spectrum of the PFM cycle, including revenue administration.

[42] For example, for the five-year PFMRP IV programme, the indicative allocation from the DPs is Tsh 100 billion and, from the GoT, Tsh. 75 billion.

Figure 16: Summary of PEFA Assessments 2006 and 2009 for Tanzania



Source: PEFA assessments 2006 & 2009

139. What have been the impacts of these reforms on the quality of the PFM system? The Public Expenditure and Financial Accountability (PEFA) methodology provides an internationally accepted approach to the assessment of PFM systems. Tanzania undertook its first assessment in 2006, shortly after the launch of the methodology (in June 2005), and a further assessment was published in May 2010, corresponding to the period up to end 2009. The next assessment is due in 2013, which would allow for a more comprehensive assessment of progress over the whole evaluation period. Nevertheless, Figure 16 provides a comparison of the results of the 2006 and 2009 PEFA assessments for Tanzania[43].

140. **The comparison of the 2006 and 2009 PEFA assessments for Tanzania suggests a mixed achievement in the improvement of the PFM system.** It points to improvements in revenue collection, in procurement systems and in external scrutiny and audit but it shows a decline of PEFA indicators in other areas. However, caution should be taken in interpreting these comparative results, as the findings of the 2006 report have been questioned, firstly because, unlike the 2009 report, it did not go through a peer review process by the PEFA secretariat and secondly because the 2009 PEFA identified eight indicators, where the score attributed in 2006 was considered improbably high[44].

[43] Indicators are grouped as follows: Credibility of the budget – PI 1-4; Comprehensiveness & Transparency – PI 5-10; Policy-based budgeting PI 11&12; Revenue collection & management PI 13-15; Cash management PI 16 & 17; Payroll, procurement & internal controls PI 18-21; Accounting, recording and reporting PI 22-25; External scrutiny and Audit PI 26-28. Indicators of Donor Practices have been excluded. The graphical presentation is derived by assigning a numerical value (from 1 to 7) to each possible score in the PEFA methodology (D, D+, C, C+, B, B+, A) and then averaging across each area of assessment.

[44] Comparing the 28 indicators relating exclusively to PFM functions (PI-1 to PI-28), 3 scores improved over the period, 13 showed no change and 12 declined, although for 8 of these, the authors of the 2009 assessment judged that no change was a more plausible rating. The comparative chart shows the unchanged 2006 scores, without the amendments suggested in the 2009 report.

141. Nevertheless, **the 2009 PEFA assessment clearly points to a reduction in the impact of reforms within the core areas of budget formulation, budget execution, and accounting and reporting**. It also points to a decline in the overall credibility of the budget (as measured by a comparison of actual expenditures/ revenues with initially improved budgets, and by the level of payment arrears). These are significant weaknesses, for which the 2009 PEFA assessment provides strong evidence.

142. **In the absence of a more recent assessment, we can only draw indicative conclusions on the changes that may have occurred up to 2013.** PFM reforms have continued to be active and the assessments of the PFM-related PAF indicators were more positive in 2010/11 and 2011/12 than they had been in previous years. The PAF Annual Review reports and the report of the first joint review of PFMRP IV, issued in November 2012, confirm that the progress already detected in the 2009 PEFA in the areas of procurement, internal and external audit and revenue administration has continued. Moreover, some of the components included in the PFMRP III addressed weaknesses identified in the 2009 PEFA. For example, a system audit of the IFMS has been undertaken aimed at improving its integrity and strengthening financial reporting, amongst other things through upgrading the software platform from EPICOR 7.03.05 to EPICOR 9.05; the numbers of commercial banks utilised by the government has also been steadily reduced so as to move closer to a Treasury Single Account system[45].

143. Nevertheless, **an analysis of recent financial reports suggests that several of the core weaknesses identified in the 2009 PEFA have persisted:**

- The credibility of the budget has continued to be weak: the 2012 Rapid Budget Analysis noted that the gap between approved and executed expenditures had been increasing, 'reaching as high as 15 % in 2011/ 12 (against a 10 % average over 2007/08 – 2010/11)'.
- The level of payment arrears has remained high, being reported to have been 1.1 % of GDP at end 2010/11 and 0.5 % at end 2011/12 (IMF, 2013.)
- Contingent liabilities from off-budget spending have grown since 2009, including the payment arrears generated by the Autonomous Government Agencies (AGAs) – most notably TANROADS, by the Parastatal enterprises, in particular TANESCO, whose accumulated deficit at end 2011/12 was reported at US 252 million (nearly 1% GDP) with monthly operating losses of Tsh 25 million (IMF, 2013), and the non-concessional loans incurred by GoT to support the development of a gas pipeline by the Tanzania Petroleum Development Corporation (TPDC);
- Weaknesses in financial reporting have persisted, with in-year reports lacking in accuracy and comprehensiveness and being released late (three to four weeks after close for monthly flash

45 The IMF 5th PSI review reports that 16,760 dormant accounts were closed during 2010/11 and 2011/ 12, with a further 8,256 identified for closure.

reports, and three months after close for quarterly Budget Expenditure Reports). These weaknesses appear to be the result of two continuing systemic weaknesses:

- The difficulties in consolidating across the different systems through which Central Government expenditures are managed (the IFMS for ministries and regions, the off-network EPICOR systems run by the State House and the Ministry of Defence, the separate systems used by the AGAs, and the separate systems used by the majority of donor-funded projects); and
- The continued lack of a comprehensive monthly bank reconciliation system (which largely explains the extensive corrections made in between in-year reports, annual financial statements and audited annual accounts - given that initial reports are issued using unreconciled accounting data.)

The relevance of the current reform programme – PFMRP IV

144. From the foregoing, it is clear that the GoT, having made fast progress in improving the PFM system up to the outset of the evaluation period, has subsequently struggled with the effective implementation of its "second generation" PFM reforms. This is not surprising: the creation of new laws and institutions and the initiation of reforms is, of its nature, easier than the comprehensive implementation and consolidation of reforms across government. However, is the current reform programme sufficient to address the continuing weaknesses, both in terms of its technical focus, and in terms of organisational and management arrangements? This is important in assessing the effectiveness of Budget Support dialogue because a benchmark of good dialogue must be that it generates relevant reform programmes[46].

145. In terms of its technical focus and its programmatic structure, the PFMRP IV has much to commend it: in particular, it is comprehensive in its focus and proposes a programme with direct links to a results framework. With regard to the areas of relative strength, as identified in the 2009 PEFA, the programme of work proposed relating to procurement, internal audit, external audit and revenue administration seems appropriate and generally well structured.

146. **It is in relation to the areas of weakness identified in the 2009 PEFA – in the core functions of budget formulation, budget execution and financial reporting, that the planned programme of work seems to lack relevance and realism.** The thrust of work on IFMS is concerned with extending its coverage to include the remaining LGAs, while for budgeting the principal target is to introduce programme budgeting and for accounting to migrate from a cash-based IPSAS system to a full accrual system. These are relevant targets in the medium to long term but they do not address the immediate short-term problems undermining the functionality of the core public expenditure management system. There are four immediate

[46] We recognize that PFMRP IV was only initiated in 2012 and thus that its implementation falls outside of the evaluation period. However, its design was completed during the evaluation period. The relevance of the PFMRP IV focus and design is thus a good indicator of the quality of the dialogue around PFM promoted by Budget Support during the evaluation period.

concerns, which are not effectively diagnosed in PFMRP IV and for which adequate reform actions have not been defined:

- Why is the executed budget so consistently different from the approved budget?
- Why is the expenditure commitment control system failing to prevent the accumulation of arrears?
- Why is it not possible to undertake a complete monthly bank reconciliation of the central government accounts?
- How could monthly and quarterly financial reporting be made more accurate so as to permit better oversight by MoF?

147. The other area of weakness in the PFM system highlighted by the World Bank's Rapid Budget Analysis and the IMF's 5th PSI review is the monitoring and control of contingent liabilities and the related fiscal risks. Some attention is given to this question in PFMRP IV, which envisages a strengthening of the Treasury Registrar's capacities, as well as legal changes to reinforce its supervisory role. However, given the fast accumulation of large financial liabilities by TANESCO and the potential problems, which would arise if TPDC were for any reason unable to service the loans it has received from Government, the degree of priority and attention being given to this aspect of the reform programme does not seem adequate.

148. **With regard to the organisational and managerial aspects of PFMRP IV, there would appear to be weaknesses in the overall ownership of reforms and in the extent of political leadership of the programme**. Although the management and monitoring framework for the programme is essentially sound, it sits within a structure of incentives, which diffuses responsibility and would thus neither reward those who should be responsible for reform, nor permit corrective measures in the event of non-performance. Four questions need to be addressed if these incentive problems are to be resolved:

- Who should ultimately be responsible for PFM reform? Clearly, it is the MoF, who should hold this responsibility, yet there is no explicit mention of the lines of communication to the Minister, nor of the potential role of the Deputy Ministers.
- Who should have operational responsibility for PFM reforms? PFMRP IV proposes quite rightly that it is the Key Result Area managers – who are drawn from the senior management of MoF, under the leadership of the Permanent Secretary and his Deputy, who should hold operational responsibility. Yet, in the past it has proven difficult to engage these managers adequately in the process[47]. Have the reasons for this been properly understood? The documentation of PFMRP IV acknowledges this failing in the earlier phase but provides

[47] On this issue, the PEFA 2009 report commented: 'The main challenge remains the buy-in of the most relevant and directly responsible units for the proposed reforms.'

limited diagnosis of its causes. Analysis of successful reforms from other countries[48] shows that active political leadership of reforms is needed, as well as a clear awareness amongst component managers that they will be held accountable by the MoF for their performance in implementing reforms. The proposed structure for PFMRP IV does not create these strong lines of internal accountability.

- What should be the role of the Programme Coordinator? In part, one cause of the blurring of operational responsibilities under PFMRP III was that the Programme Coordinator was perceived as holding responsibility for implementation. It seems important to clarify that the role of the Coordinator is to monitor progress, to report to the DPs and PST on progress and to advise Key Result Area managers when requested. To a degree, the PFMRP IV moves in this direction but not, in our view, sufficiently given the problems documented in this respect in the implementation of PFMRP III.
- What should be the role of the DPs? Ideally, it should be to provide finance and/or technical assistance upon request, to monitor progress as part of the monitoring of the underlying principles for Budget Support, and to provide advice on implementation when requested. The current structure blurs the boundaries of this role: for example, the PFMRP is decribed as a "joint" programme, whereas it should clearly be a GoT programme, whose implementation DPs may assist, but over which they have no ownership.

The contribution of Budget Support to PFM reform

149. Based on the evidence available at the time of the evaluation, we have concluded as follows:

- A programme of PFM reform has been in place throughout the evaluation period, to which the Government has shown a clear commitment;
- According to the PEFA assessments of 2006 and 2009 and other documentation available for more recent years, improvements have been achieved in certain aspects of the PFM system - especially in procurement, internal and external audit and revenue administration – but significant weaknesses persist in the core functions of budget formulation, budget execution and financial reporting, as well as in the monitoring and control of contingent liabilities.
- The current PFM reform programme, PFMRP IV, presents a coherent programme of reforms clearly linked to results but it does not adequately address the continuing weaknesses in the core functions and does not give adequate urgency to the task of strengthening the monitoring and control of contingent liabilities.

[48] In particular, see the results of a recent evaluation of 10 years of PFM reform in Burkina Faso, Ghana and Malawi, managed by the African Development Bank, Sida and Danida. (Lawson, 2012) The conclusions are supported by a separate study of PFM reform in Fragile States, managed by the World Bank and the Overseas Development Institute, London (World Bank/ ODI, 2012).

- The proposed management structure for PFMRP IV is generally appropriate but it does not adequately re-affirm Government ownership of the programme, nor remove the remaining ambiguities over the precise lines of responsibility for reform implementation.

150. **Stakeholders from Government and from the BSG agree that in the absence of Budget Support the same level of consistent Government commitment to PFM reform would not have been achieved.** The fact that this commitment to reform has not achieved more substantial and widespread improvements to the PFM system may be in large part attributed to the difficulties of implementing "second generation" reforms (involving roll-out and consolidation rather than simple design and initiation), in a context of relatively weak human resource capacities and institutional structures. However, did Budget Support worsen or lessen these given constraints?

151. **Through reliance on extensive project and common basket funding for PFM reform, the DPs may have inadvertently weakened government ownership of reforms**. Where reforms are funded through the budget, ownership is protected and the responsibility of the Permanent Secretary (as Controlling Officer) and the Minister of Finance is re-inforced. By contrast, in Tanzania, the adopted funding structure relied heavily on direct funding of PFM reform activities through projects and through a Common Basket Fund[49]. This automatically accorded a managerial and supervisory role to DPs, as the staff responsible for the use of these funds. We consider that this contributed to the blurring of the ownership of reforms, which is referred to in the PFMRP IV documentation and in the 2009 PEFA report. In short, rather than generating synergy between Budget Support and other modalities, the scale of project and CBF funding for PFM reforms had a negative effect on ownership.

152. **It is also notable that the Budget Support dialogue has not generated a fully relevant programme of reforms, focused on the most significant weaknesses in the PFM system.** In part, this may be attributed to the conflictive nature of dialogue, which as documented in Chapter 2 has been a feature of Budget Support over 2007/08 – 2009/10. The need to re-establish trust in the more recent years may also have discouraged DP staff involved in the PFM process from broaching sensitive issues with their GoT counterparts, thus allowing significant problems to remain undiscussed and unaddressed. Whatever the precise dynamics, a benchmark of good dialogue must be that it generates relevant reform programmes: the shortcomings in the PFMRP IV programme are indicative of shortcomings in the dialogue process.

153. **The limited use of technical assistance to support the Government in the design and implementation of PFM reforms has also proven detrimental**. The implementation of second generation reforms is complex, requiring experience in the sequencing of reforms, in the monitoring of reforms and in the management of change processes. In those core areas of

[49] There might be a comparative advantage in funding certain inputs to the PFM reform process from externally financed projects or CBFs, such as the acquisition of international technical assistance. However, the scale of funding clearly exceeded such a contribution.

continuing weakness identified above (Paragraph 143 and 146), the MoF could have benefitted from adequately qualified international technical assistance to assist in the design of appropriate solutions and to mentor staff in the implementation of those solutions. In its comments on the PFM reform process, the 2009 PEFA lent support to this judgement:

'A clear priority for the Government has been to minimise dependence on external consultants and to develop in-house capacity. While this is a strategic priority, in the near term there is clearly a need for short term technical support.'

3.3. The Budget and the composition of spending

154. EQ 3.3 has been focused on the analysis of changes in the composition of public expenditure and in the resulting composition of spending outputs. We consider both the economic classification of spending and the sectoral composition of spending, assessing to what extent changes can be attributed to Budget Support.

Influence of Budget Support on the economic composition of spending

155. In section 3.1, we examined the principle changes in the economic composition of the budget, as illustrated in Table 13. Over the evaluation period (2005/06 – 2011/12), we noted that:

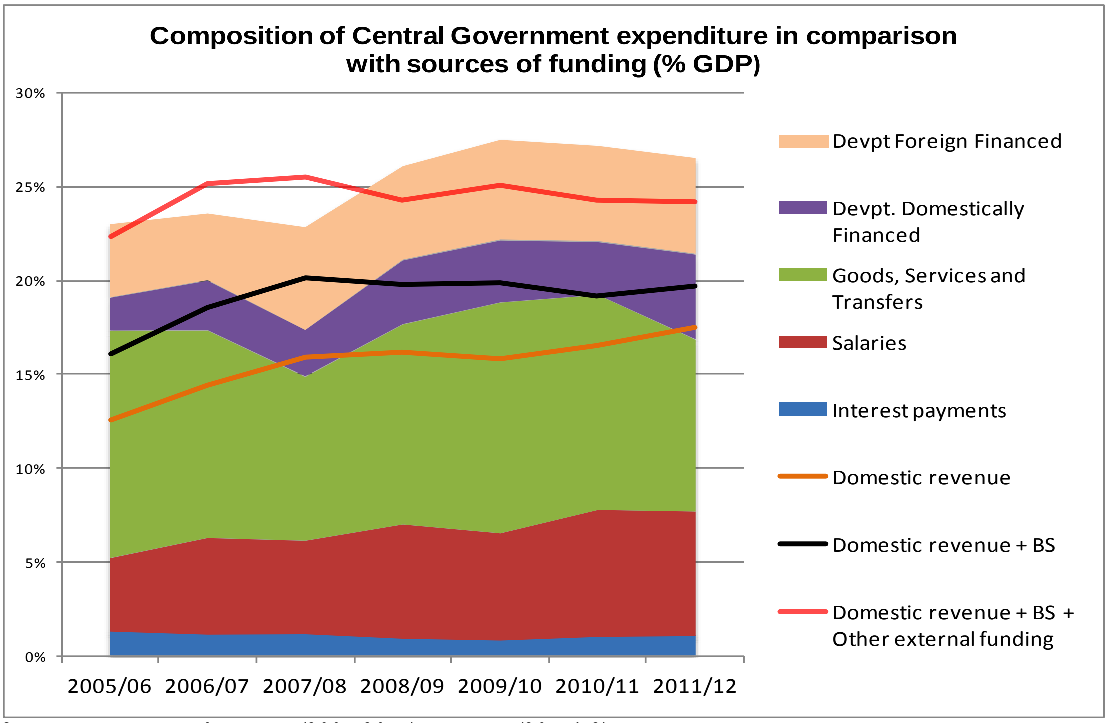
- Total spending increased by three percentage points of GDP, as a consequence of expanded development spending, and in particular of domestically financed development spending.
- Recurrent expenditure fell to 17% of GDP in 2011/12, a level that could be more than sustained by domestic revenues alone.
- Within recurrent expenditures, there was an increase in the relative weight of wages and salaries, which rose from 3.9 % of GDP to 6.6 %, with the relative importance of goods, services and transfers declining correspondingly.
- Annual interest payments fell marginally from 1.3% of GDP to 1.1%.

156. **Budget Support funds were of considerable importance in facilitating the shift in the composition of spending towards domestically financed development expenditures.** The special contribution of Budget Support comes through its ability to enhance the pool of "discretionary resources" which are not pre-assigned to any specific expenditure and whose use is at the full discretion of Government.

157. How can we be confident that Budget Support resources facilitated the expansion of domestically financed development spending? A simplistic analysis of the allocation of Budget Support might suggest that, as it has comprised on average 14% of total spending, it has contributed 14 % of each category of spending. However, such an argument ignores the true nature of budgetary decision-making processes. If there had been no Budget Support flows at all, the GoT would not been able to reduce spending on each expenditure category by 14%. The full requirement for interest payments would need to have been paid, as well as other

constitutionally protected items of expenditure (falling within "Consolidated Fund Services"). It would also have proven difficult to cut salaries by 14 %. In short, GoT would have been forced to finance the non-discretionary items of spending, while cutting the discretionary items, such as domestically financed development spending.

Figure 17: The contribution of Budget Support to the funding of discretionary spending.



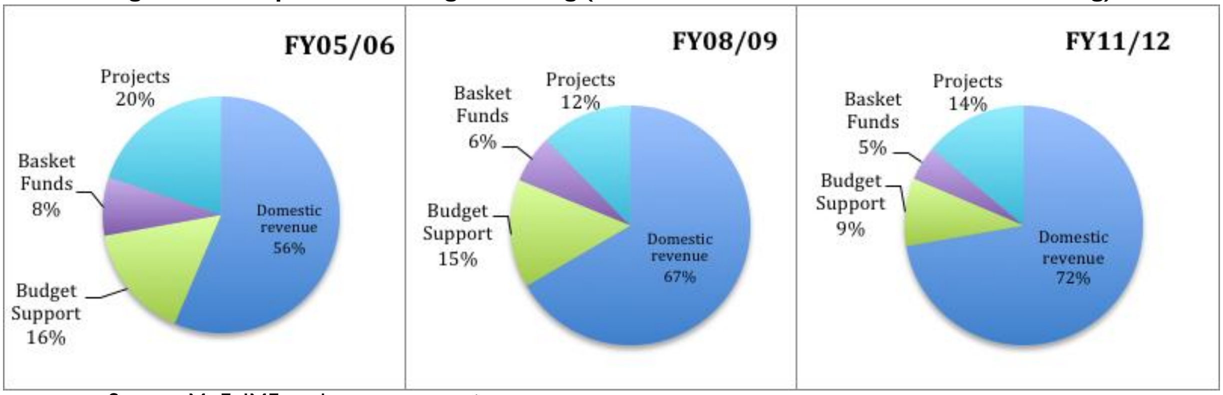
Source: Fiscal tables from IMF (2005-2011) and MoF (2011/12).
1/ Budget Support, Basket Funds and Projects include loans and grants;
2/ Domestic and non-concessional external borrowing are not shown.

158. **For most of the evaluation period, it is Budget Support, which has permitted non-salary recurrent spending to be fully financed, alongside an expanding level of domestically financed development spending, and a growing salary bill for the education sector.** Figure 17 provides an indication of the likely contribution of Budget Support to the funding of specific expenditures, taking into account the relative discretionality of different expenditure categories. It illustrates that for much of the evaluation period, domestic revenue would only have been sufficient to cover interest payments, salaries and a proportion of non-salary recurrent spending. However, we should note that much of the rise in salary expenditures was due to the expansion of the education sector, and the consequent increase in the number of teachers. This incremental spending on salaries could also be considered discretionary and would also have been facilitated by Budget Support.

159. As the scale of Budget Support has declined, its relative significance as a funding source has fallen from 16% of the total of financial sources in FY05/06 to 9% in FY2011/12 (Figure 18). Domestic revenue has expanded its importance as a source of financing from 56% to 72% over the period, while Basket Funds decreased gradually from 8% to 5%, and the relative importance of projects also decreased. 2010/11 and 2011/12 have seen increasing recourse to domestic and non-concessional external borrowing, as Budget Support funding has contracted below the level

necessary to fund in full the domestic component of development expenditure.

Figure 18 Composition of Budget Funding (excl. Domestic & non-concessional borrowing)



Source: MoF, IMF, and own computation.
1./ Budget Support, Basket Funds and Projects include loans and grants.

Influence of Budget Support on sectoral composition of spending

160. **Total spending on the six priority sectors designated in MKUKUTA (education, health, water, agriculture, roads and energy) has more than doubled in nominal terms over the evaluation period, increasing by five percentage points of GDP.** As a percentage of total expenditure, these six priority sectors have increased their share from 40 % to just over 50% of total spending. Thus, budgetary allocations – boosted by Budget Support disbursements – have closely followed the priorities established in MKUKUTA. Even in the most recent fiscal year, when recurrent spending cuts had to be applied in order to maintain a sustainable fiscal deficit, spending on the priority sectors remained above 50 per cent[50].

Table 15: Spending within MKUKUTA priority sectors during evaluation period

Priority sectors as % of total expenditure (excluding interest debt servicing)

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Education	16.68%	21.58%	21.70%	18.29%	17.26%	20.28%	18.34%
Health	10.35%	10.23%	9.70%	13.92%	9.00%	9.56%	8.02%
Water	2.77%	4.91%	3.69%	2.78%	2.63%	2.30%	1.91%
Agriculture	2.96%	2.26%	5.08%	4.37%	5.63%	5.36%	4.97%
Roads	4.64%	9.38%	10.16%	9.54%	13.51%	14.54%	14.90%
Energy	3.05%	2.13%	1.39%	1.19%	1.50%	3.06%	4.97%
Total	**40.46%**	**50.49%**	**51.71%**	**50.10%**	**49.53%**	**55.09%**	**53.10%**

Priority sectors as % of GDP nominal

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Education	3.62%	4.83%	4.70%	4.60%	4.60%	5.30%	4.80%
Health	2.24%	2.29%	2.10%	3.50%	2.40%	2.50%	2.10%
Water	0.60%	1.10%	0.80%	0.70%	0.70%	0.60%	0.50%
Agriculture	0.64%	0.51%	1.10%	1.10%	1.50%	1.40%	1.30%
Roads	1.01%	2.10%	2.20%	2.40%	3.60%	3.80%	3.90%
Energy	0.66%	0.48%	0.30%	0.30%	0.40%	0.80%	1.30%
Total	**8.77%**	**11.31%**	**11.20%**	**12.60%**	**13.20%**	**14.40%**	**13.90%**

Sources: RBA (2012) for period 2008/09 to 2011/12, RBA (2007) for period 2005/06 to 2006/07, MoF and Logintanzania for Agriculture and Energy for period 2005/06 to 2006/07.

50 The World Bank's Rapid Budget Analysis of 2012 noted that recurrent budget cuts had fallen disproportionately on the priority sectors but this is simply a reflection of the fact that a higher proportion of discretionary spending (notably development expenditure) falls within these sectors. Despite being of a lower priority, spending in other sectors is less discretionary and therefore more difficult to cut.

161. The relative level of spending on the MKUKUTA priority sectors is one of the indicators within the PAF and has been a regular subject of discussion within the Budget Support dialogue. On the other hand, as stated priorities of the Government and as sectors for which spending commitments have been repeatedly made in public speeches by the President and by Government Ministers, there is little evidence that their inclusion in the Budget Support policy dialogue has accorded them greater priority. However, by lending higher profile to these priorities and by providing a discussion forum where different stakeholders may comment on the policies and expenditure programmes within these sectors, Budget Support has made a useful contribution to improved oversight of spending in these priority sectors.

162. How may we measure the contribution of Budget Support funding to the growth of spending in these priority sectors? Again, a simple proportionate contribution to each sector does not capture the real dynamics of budget decision-making. We have therefore constructed estimations of the relative contribution of budget support to each sector based on the following assumptions:

- All sector ministries and agencies will tend to defend their sector shares of the budget. Thus, increasing allocations to priority sectors by directly cutting other sectors is extremely difficult to do. A more likely scenario is that incremental spending for the priority sectors is sourced from new sources of discretionary spending, such as budget support.
- We have therefore assumed that each sector would continue to command the same share of domestic revenue throughout the evaluation period. Thus, we have assigned domestic revenue by sector according to the sector shares ruling in FY2005/06.
- Then, one part of the gap between the actual share recorded in the annual accounts (shown by the red lines in Figure 19) and the assumed share of domestic revenue (based on the above assumption) is accounted for by funds from Sector Budget Support, projects and Common Basket Funds, which are assigned to specific sectors. (Figure 20)
- The remaining gap can be assumed to have been financed by General Budget Support.

163. It is difficult to test these assumptions explicitly but it is reasonable at least to state that in the absence of funds earmarked through SBS, projects or CBFs, it would have been considerably more difficult to finance those sectors whose relative shares increased significantly from the 2005/06 position, without drawing on GBS resources. Without GBS, such levels of funding could only have been achieved by re-assigning shares of domestic revenue from one sector to another, which is always difficult to achieve through the budgetary negotiation process.

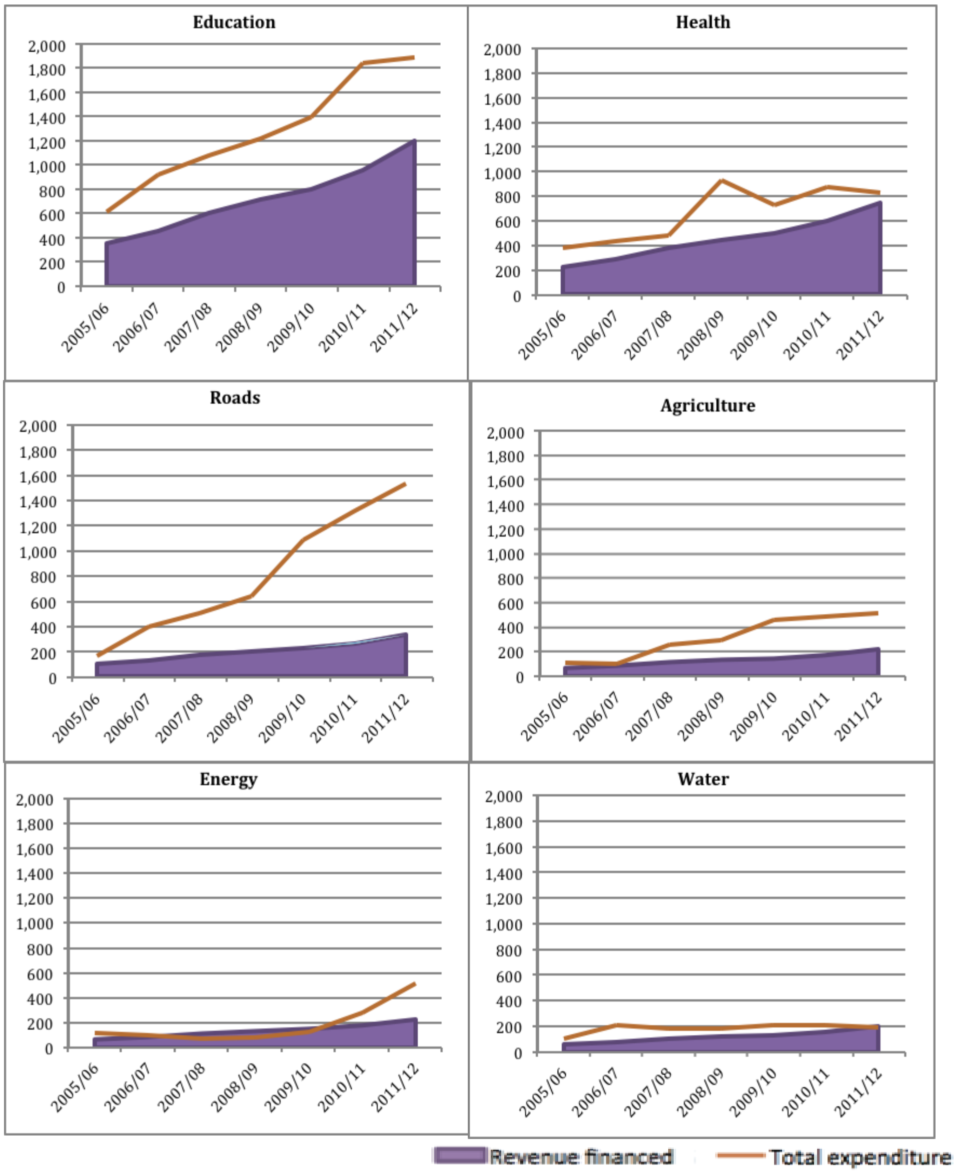
164. Figures 19 and 20 show the results of this estimation process. From this analysis, we draw the following conclusions:

- Education, Roads and Health are the sectors which have commanded the largest shares of the budget, but, of these, only Education and Roads have increased their sector shares over the evaluation period.
- For the Health sector, the 2005/06 share of domestic revenue + the project and CBF funding

subsequently received has been more than sufficient to cover the financing needs, without drawing on GBS funding.

- For Education and, more especially Roads, the gap in funding from the 2005/06 share of domestic revenue + SBS, Projects & CBFs would have been substantial. It thus seems implausible that equivalent funding levels would have been provided in the absence of GBS.
- The relative contribution of SBS funds in Roads and Education is small.
- The gap in finding for the Agriculture sector would have been relatively small, and could probably have been fully covered by the sector basket fund and projects.
- The Energy sector is growing in funding needs but its requirements are still much lower than in the Roads and the Education sectors (excluding potential funding for TANESCO).

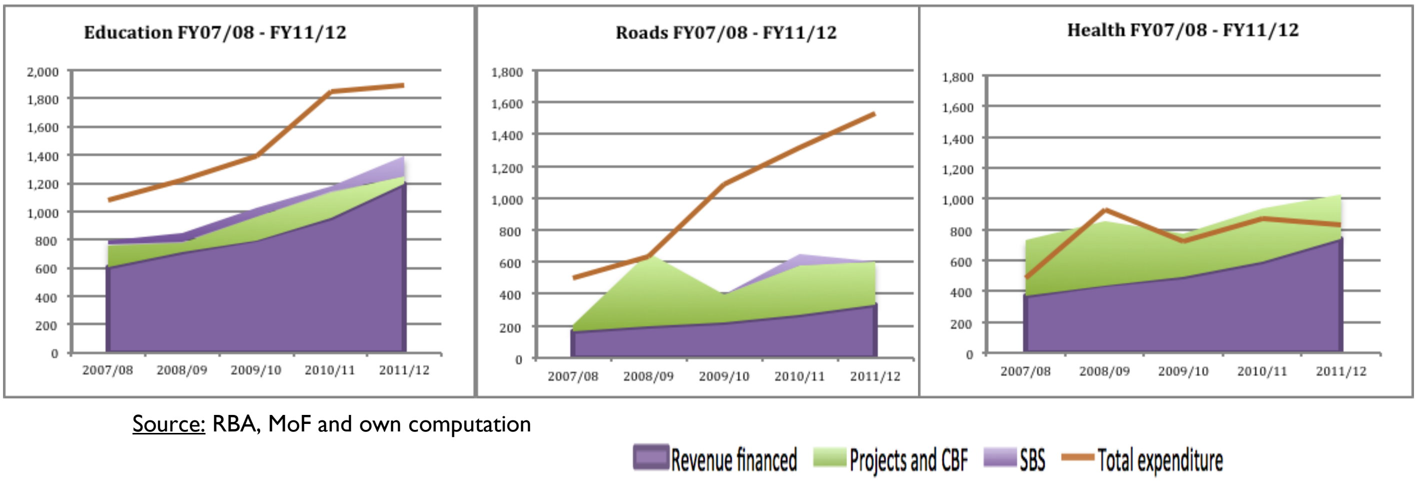
Figure 19: Allocations to Priority Sectors compared with estimated shares of Domestic Revenue



Sources: RBA (2012) for 2008/09 to 2011/12, RBA (2007) for period 2005/06 to 2006/07, MoF and Logintanzania for Agriculture and Energy for period 2005/06 to 2006/07. MoF for Aid data.

165. **We therefore conclude that the major contribution of GBS funding has been to support the expansion of public spending in the education and roads sectors**, alongside a lesser contribution from the SBS arrangements in these sectors. It would have been exceedingly difficult to achieve the expansion of sector shares recorded for these sectors in the absence of GBS and SBS. In addition, from our earlier analysis, we conclude that it is the new discretionary areas of spending in these sectors, which would have been most difficult to finance in the absence of Budget Support, namely the spending on domestically financed development expenditures, on non-salary recurrent costs and on the incremental salary costs in education due to the employment of new teachers.

Figure 20: The funding gap filled by SBS, GBS & projects

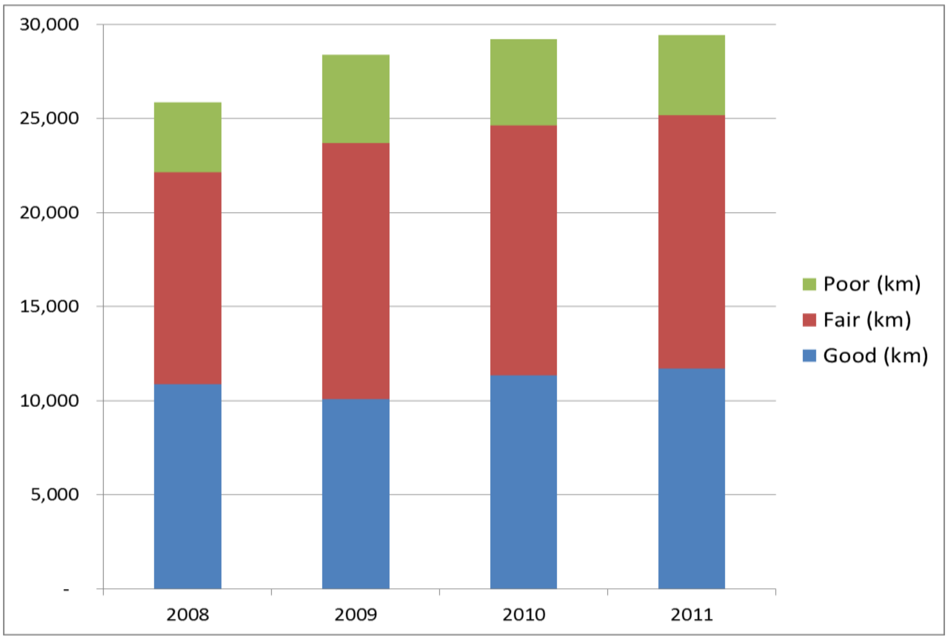


Source: RBA, MoF and own computation

The outputs of spending: analysis of the Roads sector

166. What have been the outputs of the increased public spending in the education and roads sectors, facilitated by Budget Support? For education, we consider this question in detail in Section 4.3, where we also examine the relationship to final outcomes in the sector. Here, we consider the outputs of public spending in the roads sector.

Figure 21: Length & condition of National Road Network (paved/ unpaved regional & trunk roads), 2008 - 2011



Source: TANROADS

167. **The significant investment facilitated by Budget Support has led to steady improvements in the road network over the evaluation period.** The overall length of the national roads network (paved and unpaved regional and trunk roads) [51] has grown from 25,846km in 2008 to 29,428km in 2011 – an expansion of nearly 14 % in the size of the network over three years. Notwithstanding this fast expansion, the proportion of roads in 'good' and 'fair' condition has remained roughly the same (see Figure 21 and Table 16).

Table 16: Condition of the National Road network (percentages of total), 2008-2011

	Good	Fair	Poor
2008	42%	44%	14%
2009	36%	48%	17%
2010	39%	45%	16%
2011	40%	46%	14%

Source: TANROADS

168. Thus, spending on road maintenance has kept pace with the expansion of the network. This has been financed predominantly by the fuel levy, which accounts for some 97% of road maintenance funding. Revenue collections from this tax are allocated straight to the Road Fund, which in turn allocates them to TANROADS and to Local Governments for the sole purpose of road maintenance and emergency repairs. Therefore, the contribution of other budgetary funds (including budget support) to increased domestic investment in roads has been primarily dedicated to road construction and rehabilitation, which has also continued to be a significant

[51] Responsibility for district, urban, feeder and community roads has been decentralised to the local councils. Equivalent data for this type of road was therefore not available from TANROADS.

focus of external project funding, through grants and concessional loans.

169. **The scale of expansion in road investment exceeded the available budgetary resources, leading to a rapid escalation in outstanding commitments to contractors and suppliers, and a build-up of spending arrears, particularly for new, paved roads.** This is estimated by the IMF to have peaked at almost US$ 300 million in 2010. The government indicated that these arrears (equivalent to 1.1% of GDP at end 2010/ 11) were due to a temporary and exceptional surge in road programme commitments. Although the Government made significant efforts to address the arrears backlog, reducing arrears to 0.5 % of GDP at end 2011/12, new unpaid claims also emerged. The majority of these were again from TANROADS, highlighting a continuing problem in the management of commitments.

170. As we have noted above in Section 3.2, the PFM system exhibits weaknesses both in budget formulation and in the control of commitments during the budget execution process. It is these weaknesses that have permitted the build-up of arrears in the roads sector. During the 5th PSI review, the Tanzanian authorities agreed to develop a strategy for control of arrears, to undertake an audit of the unpaid claims and to clear arrears by the close of the 2012/13 fiscal year. It is hoped that this will provide a sustainable solution to the problem.

171. **Yet, unfortunately, the payment arrears have affected the balance of costs and benefits from the expansion of the road network, which Budget support facilitated**. Payment delays have compelled contractors to slow down or stop work and are precipitating legal action against TANROADS. This has had a number of negative consequences:

- It has undermined private sector confidence, impacting on tender prices and construction costs, potentially also for government contracts in other sectors.
- It has reduced sector credit ratings, eroding prospects for Public Private Partnerships (PPP), which had been identified as a means to develop transport infrastructure.
- It has reduced Value for Money (VfM), as contractors were forced to stop executing projects, or to “go slow” and may raise future tender prices to cover increased risk.

3.4. Governance and the Fight against Corruption

172. Evaluation Question 3.4 aims to analyse the extent to which there have been improvements in the quality of governance and accountability and to examine the extent to which such changes can be attributed to budget support. In particular, we explore the changing status of five institutions, during the evaluation period, and their evolving roles in the scrutiny of budgets and accounts: Parliament, Civil Society (incl Media), Local Government Authorities (LGAs), the National Audit Office and the Prevention and Combating of Corruption Bureau (PCCB).

173. **The Parliament has during the evaluation period significantly strengthened its**

oversight role. This has in particular been through the Public Accounts Committees[52] (PACs) that are chaired by opposition members. The secretaries of the committees interviewed by the evaluation team confirmed that all of the committees had become more active since 2005, both in terms of the number of hearings and the amount of time dedicated to the work. The opposition members have had clear institutional incentives to engage in the work of the PACs, especially given the increased media coverage, but government members have also participated actively. The improved performance of the PACs is also linked to general improvements of the National Audit Office, in the scope and in the accessibility and "user-friendliness' of audit reports.

174. Improvement in Parliaments' scrutiny of budgets has been less evident (and is difficult to measure). The PEFA assessments indicated that there had been no "substantial" improvements between 2005 and 2009.The Open Budget Survey 2010 (http://internationalbudget.org/) indicates that the National Legislature in Tanzania scores well below the regional average (25 compared to regional average of 39), and that its role in the budget process is limited in an international perspective. It can be argued that MPs are concerned foremost with the specific interests of their constituencies rather than debates on broader policy and national budget allocations.

175. **Civil Society Organisations** have also strengthened their engagement during the evaluation period. In particular "the Policy Forum" (PF) (created in 2002) has played a significant role in coordination and publicity regarding CSOs' work on budget transparency and accountability. The members of PF have organised working groups that focus on budget transparency and accountability at central and local levels. The work has included development of "citizen budgets", analyses of budgets, tools for social accountability etc. This type of work has clearly intensified during the evaluation period. In particular, CSOs have engaged more actively at LGA levels in order to support local scrutiny of budgets and expenditures. DPs, especially those that have engaged in budget support, have directly funded the majority of this work.

176. Notwithstanding this increased engagement in budget transparency issues, government stakeholders were of the opinion that there remained a high level of duplication, and sometimes rivalry, between CSOs, which tended to reduce the quality of their inputs into dialogue processes. A more careful division of labour across CSOs would facilitate greater specialisation and therefore a more strategic engagement in dialogue processes. Government stakeholders also expressed the view that CSOs would gain more credibility, and therefore more voice, if they were to be more transparent about their funding sources.

177. **Media** have in a similar manner increasingly acted as "watchdogs", in particular in reporting on the various cases of grand corruption that attracted significant public attention. Media have (in a similar manner as CSOs) received direct support from donors for critical and investigative journalism. However, it is widely recognised that "citizen journalism" with publication through various social media, blogs and the Internet generally played a more significant role than print

52 Committees for Public Accounts, Local Government Accounts and Parastatal Organizations Accounts.

media in in several of the grand corruption cases[53].

178. **The National Audit Office (NAO) has during the evaluation period improved the scope, timeliness and quality of audit reports of both MDAs and LGAs.** This is reflected in the PEFA assessments 2006 – 2010, where the score against indicator PI-26 improved from a "D+" to a "B+". A new external audit law was passed by the National Assembly and gazetted in September 2008, which has brought improvements in the external auditing task, including further independence of the NAO and a stronger follow-up by the Executive to the NAO's findings. Improvements are partly due to targeted donor support projects – e.g. from the Swedish Auditor General, but also a result of increased GoT budget allocations and attention to the institution. PFMRP III and IV have accorded an important role to capacity building work within the NAO, and improvements to external audit rank amongst the more significant achievements of the GoT's PFM reform efforts.

Trends in the fight against Corruption

179. **Corruption issues have been a major focus of attention in GBS dialogue**. Corruption remains a challenge in Tanzania and a number of "grand corruption" cases were uncovered and attracted much attention in particular over 2007 - 2008. These included the EPA scandal, the BoT construction cost over-run, the BAE air traffic radar case and the Richmond power scandal. These cases have been widely covered in the media and the Richmond scandal was also actively investigated by Parliament. The latter led to the resignation of Prime Minister Lowassa and two other Ministers in February 2008 while the Governor of the BoT, Mr Balali, was sacked one month earlier due to the EPA scandal.

180. **The Government reaction to these scandals brought a mixed response both from the domestic media and from DPs.** Some commentators interpreted these cases as an active "crack down" on corruption by the new administration. Very senior party members and top civil servants had lost their positions as a result of these scandals, there had been active investigations by Parliament and there were corrective actions within the Ministry of Energy (in relation to the Richmond scandal) and within the BoT to prevent the re-occurrence of these sorts of events. Other commentators pointed to the lack of prosecutions being brought as a result of these scandalas, as an illustration of a lack of sincereness in exerting full accountability for these actions. Interviewees reported that both of these views were present amongst the BSG members, leading to a situation of tension.

181. **Following discussions and investigations, the BSG concluded that underlying principles had <u>not</u> been breached and consequently Budget Support disbursements continued.** The official reaction of the BSG was to request information from Government on the actions being taken, and, in some cases to suspend Budget Support disbursements during the

[53] Notably, in the Richmond case, the "radar" case and EPA – see the analysis in Scribes (Journal for the advancement of journalism published by the Media council in Tanzania) June 2010 Issue no 3.

process of analysis of those Government reports. The key concern was to demonstrate that the Government was fulfilling its commitment to the 'active fight against corruption' required as an underlying principle of Budget Support. In the end, BSG members concluded that this principle had not been breached. The evaluation team would judge that this was an appropriate decision. While a higher number of prosecutions would have been desirable, it needs to be recognised that bringing corruption cases to prosecution requires evidence that can stand up in a court of law and for all fraud offices and anti-corruption agencies around the world this is often difficult to collect. In general, the time taken for prosecutions is long and success rates are low, and the situation in Tanzania is no different. There is no doubt, however, that among many BSG members this left a feeling of dissatisfaction, which has lingered almost throughout the evaluation period.

182. **A report on corruption trends subsequently commissioned by the GBS partners to inform the GBS dialogue was rather positive in its assessment.** (Claussen et al, 2011). It documented progress in Government efforts for curbing and prosecution of corruption and concluded: '*While grand corruption is by many studies assumed to have increased over the years, there is limited empirical evidence to support this assumption*'. The report recommended that GBS partners should strengthen support for wider public sector reform work and for the ongoing National Anti-Corruption Strategy & Action Plan, with the objective of filling the gaps in capacity for Tanzania to further the anti-corruption agenda.

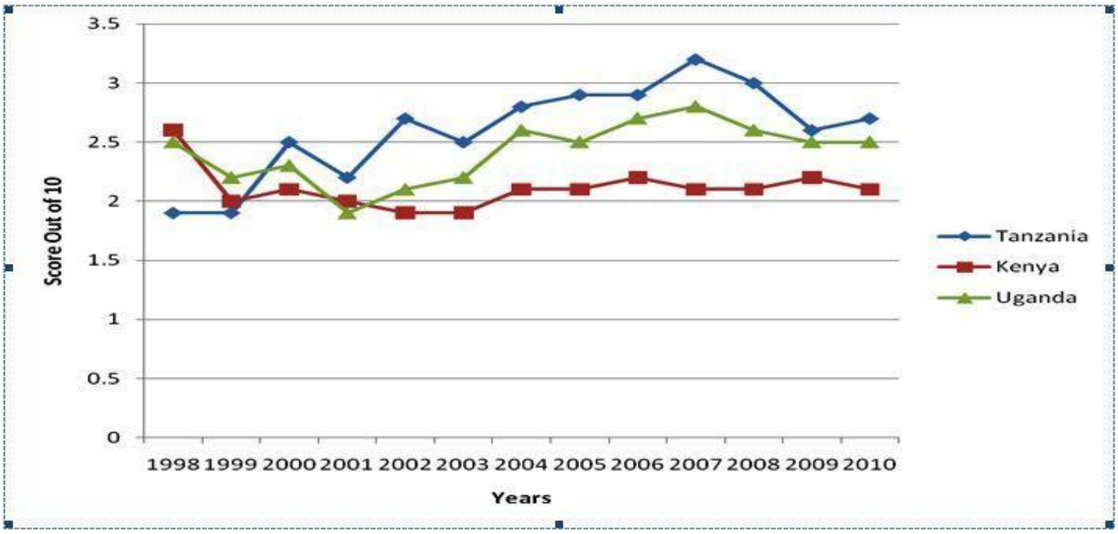
183. **Surveys on public perceptions over the evaluation period point to corruption as a continuing problem but do not show a clear worsening trend.** Moreover, all surveys indicate that Tanzania performs better than the neighbouring countries, with the exception of Rwanda. Tanzania performs relatively well in the Mo Ibrahim governance surveys, showing improved governance over the evaluation period and ranking 10th out of 53 overall and 2nd within the East African region in 2012[54]. Surveys by the Tanzania Construction Sector Transparency Initiative indicate rising incidents of corruption in the construction sector but in the Transparency International Corruption Perception Index, Tanzania performs consistently better than Uganda and Kenya,[55] (Figure 22). In common with the Mo Ibrahim governance index, local citizen surveys conducted by REPOA also indicate that perceptions of corruption are generally decreasing.[56] The Afro barometer surveys conducted in Tanzania over the five rounds since 2001 (2001, 2003, 2005, 2008 and 2011/12) indicate general improvements in peoples' perception of the extent of corruption among institutions of government up to 2008, although the most recent survey results (March 2012) showed an increase in peoples' perception of the incidence of corruption.

[54] http://www.moibrahimfoundation.org/en/section/the-ibrahim-index.

[55] TI CPI 2009 – see http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table

[56] See the citizen surveys by REPOA (www.repoa.or.tz) and afrobarometer (www.afrobarometer.org)

Figure 22: Transparency International Scores in East Africa 1998-2010



Source: Transparency International Corruption Perceptions Index

184. **The Government has taken a number of steps to curb corruption during the evaluation period.** The Tanzania Prevention and Combating of Corruption Act was passed in 2007, which strengthened the powers of the PCCB (Prevention & Combating of Corruption Bureau). The PCCB has significantly increased the scale of its operations and PCCB statistics show improvement in most indicators but in particular in the number of cases taken to court, case prosecutions and the value of assets recovered (See Table 17).

Table 17: PCCB statistics on cases treated, prosecutions and asset recovery, 1995 -2010

YEAR	Allegations received	Cases Investigated	Administrative actions taken	New cases into courts	Total cases Prosecuted	Conviction cases	Assets recovered (in bn. Tsh)
1995	261	261	-	8	16	1	2.7
1996	513	513	-	21	34	2	1.9
1997	510	510	-	9	18	1	6.9
1998	545	545	-	15	31	2	9.3
1999	1,116	1,116	-	62	47	9	14.8
2000	1,244	1,244	-	49	42	6	11.1
2001	1,354	1,354	1	57	53	-	2.5
2002	1,383	1,383	42	52	191	12	2.7
2003	2,285	1,796	21	51	178	9	3.8
2004	2,223	1,149	126	60	202	6	4.0
2005	3,121	677	111	50	218	6	2.5
2006	6,320	1,528	209	71	251	18	1.3
2007	8,235	1,266	280	196	352	35	1.6
2008	6,137	928	74	147	416	37	13.2
2009	5,930	870	40	222	463	46	0.4
2010	5,685	870	29	224	587	64	10.1

Source: PCCB.

Contribution of Budget Support to Governance Trends in Tanzania

185. **DPs have increasingly used GBS as the forum for discussion of corruption concerns with Government**. In particular, the high level dialogue on corruption- led by the Troika-plus members of the BSG - was launched during the evaluation period. In interviews, some DPs expressed the view that this had helped to keep pressure on Government for follow up on corruption issues – in particular high level corruption. On the other hand, Claussen & Martinsen (2011)[57] concluded that the Budget Support dialogue on corruption had not been very successful due to the overall nature and content of this dialogue:

"*it has not been founded on empirical evidence nor offered advice and support of value added to the Government. Instead it has been characterised by a process in which Development Partners have been "auditing" Government performance based on limited information and empirical evidence leading to a situation of mistrust and lack of clarity on what is the real agenda for the "dialogue*".

186. In discussions with the pertinent GoT and DP stakeholders, the evaluation team were given the impression that in the final 18 months of the evaluation period (up to end 2012), the quality of exchanges within the high-level dialogue on corruption had improved considerably. The key point made was that it had created an avenue for communication between Government and DPs, in which the Government now provided information on progress in anti-corruption efforts, which had not been provided in the past. Although more time would be needed for trust to be fully re-established, several stakeholders were optimistic that this forum would provide a basis in future for constructive review and strengthening of anti-corruption work. No other aid modality has in the past even come close to creating such a forum in Tanzania, so, if successful, this will have been a very important contribution of Budget Support, even if more time is required for a constructive dialogue of this kind to be fully in place.

187. In addition, **there is strong evidence that the combination of GBS funding through the budget with targeted support to "institutions of accountability" such as the NAO, the Parliament, CSOs, media and LGAs has created more transparency.** Transparency in itself does not always translate into effective accountability but it is a necessary condition for it and, in historical perspective, the improvements in transparency over the past seven years have been considerable. Targeted project support to the institutions of accountability has been fundamental to this achievement but also important has been the complement provided by Budget Support – in the form of additional funding through the Budget, allowing the recurrent budgets of all of these institutions to rise in real terms, and in the form of an established framework – the annual thematic and national-level reviews – for reviewing progress publicly. This is therefore an area where complementarities between Budget Support and other modalities have been strongly positive.

[57] Jens Claussen and Mari Martinsen, 2011: *A brief review of corruption in Tanzania*, Nordic Consulting Group. The study was commissioned by GBS development partners in order to inform future dialogue on governance and corruption issues in particular within the context of GBS.

3.5. Mechanisms for Service Delivery

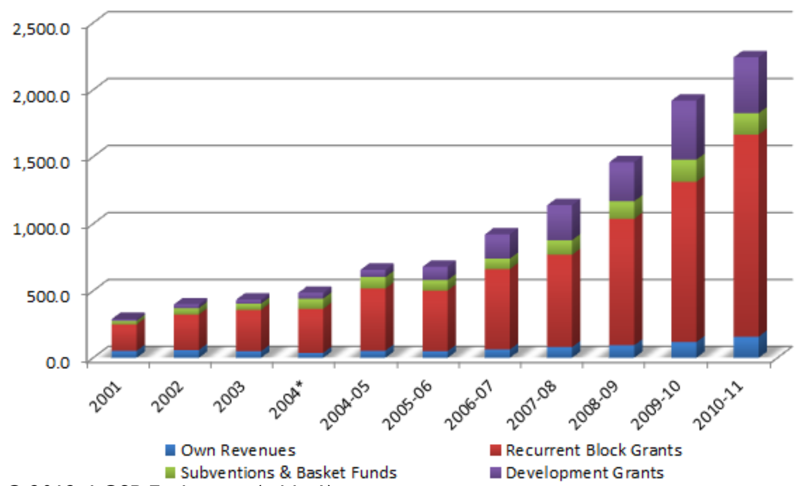
188. This EQ examines the extent to which the quality of public administration systems of importance to locally-delivered basic services has improved. Specifically, we analyse changes in systems for fiscal and human resources with an emphasis on central – local government relationships, and assess whether such changes can be attributed to budget support.

Reforms for transparent and formula based budget allocations for LGAs

189. **Over ten years, the resources available to LGAs have increased almost tenfold in nominal terms, approximately equivalent to a five-fold increase in real resources**. Simultaneously, there has been fast growth in the overall level of central government finances and thus only a modest increase in the relative share of total public finances going to the local government level. Total local government expenditures (recurrent plus development) increased from approximately 17% of total public expenditures in 2005/06 to 20% in 2009/10 (Figure 23).

190. **Two important local government fiscal reform initiatives were embarked upon at the beginning of the evaluation period in support of improved local service delivery**. Both of these arose in the wake of the 2004 Local Government Reform Programme (LGRP) Review that argued for more emphasis on "systemic LG reforms and in particular more emphasis on fiscal decentralisation". The first initiative was an attempted reform of the way the LG recurrent budget allocations were formulated. It was realised that recurrent allocations for personal emoluments (PE) and other charges (OC) were allocated to LGAs in a relatively intransparent manner whereby some LGAs received significantly more than others without any particular justification except that those LGAs over time had employed (been allocated) a higher number of staff and that these staff numbers were driving the relative levels of budget allocations. The rationale for the reform proposal was partly to ensure a more rational allocation of fiscal resources but also to grant LGAs increased powers for local management of recurrent budget allocations.

Figure 23: An overview of local government finances in Tanzania, 2001- 2010/11
(Actual/realized revenues and transfers, in Tsh billion)



Source: PMO-RALG 2012: LGSP Evaluation (table 1)

191. The other reform initiative was the introduction of a development grant system (the Local Government Development Grant (LGDG) System) as a vehicle for devolution of the development budget to LGAs. The recurrent grant transfers and the development grant transfers constitute the bulk of LGA budgets (See Figure 23).

Formula based and more equal allocation of recurrent budgets to LGAs

192. Cabinet adopted detailed proposals for a system of formula-based recurrent sectoral block grants in February 2006[58]. This included proposed formulae for recurrent budget allocations for each of the main sectors. PE and OC allocations for the education sector were for instance planned to be allocated according to a formula entirely based on the number of school age going children. The system of formula based allocations was in principle introduced for budget allocations from FY 2005/06. It was realised from the beginning that the systems had to be gradually "phased" whereby those LGAs that were to have their budgets reduced using a formula based allocation system would be "held harmless" and that the formula based allocations in this manner gradually would be phased in as annual allocations to LGAs would increase over the years.

193. In spite of extensive consultations and analytical studies the system of formula-based budget allocations never materialised in practice (PMO-RALG, 2007, *LGRP Evaluation*). This was primarily because the Government became concerned over the risks associated with the devolution of staff management responsibilities to LGAs. Thus, from 2005/06 the Government increasingly centralised recruitment of staff for LGAs. The intended policy of formula-based allocations to LGAs was not explicitly abandoned and featured as a PAF indicator in the GBS dialogue up to 2009/10. In 2010/11 the policy target in the PAF was reformulated as "increased equity in health and education staff allocations among LGAs."

Table 18: Per capita recurrent grant allocations by LGA, FY 2010/11 (current T.shillings)

	Education	Health	Roads	Water	GPG/Admin
Maximum	59,651	28,352	2,611	6,700	27,496
Average	29,234	6,204	650	4,836	8,759
Minimum	15,657	1,048	109	85	91

Source: Rapid Budget Analysis 2010

194. While clearly the intended formula-based allocation for recurrent transfers was never fully implemented, it is more debatable whether staff and resource allocations have become more equitable. The PAF indicator for FY 2010/11 was deemed "not achieved". Budget analyses also suggest continued inequalities in per capita budget allocations of significant magnitude (Table 18). On the other hand, closer analysis of trends in teacher allocations suggests that the education sector has achieved some significant narrowing of LGA disparities. (See Section 4.3)

58 PMO-RALG LG Fiscal Review December 2005. For each of the main sectors a sector specific formula for budget allocations was developed by the "Coordinating Block Grant Implementation Team" – an inter-ministerial working group chaired by the Deputy Permanent Secretary of Finance.

195. **The LGDG formula-based development grant system has been introduced with some considerable success.** Prior to the introduction of the LGDG system in FY 2005/06, LGAs received only five billion Tsh annually for their development budget through fiscal transfers. A range of donor-funded projects that typically only targeted a sub-set of LGAs financed the bulk of development expenditures in LGAs. Thus the Irish, the Swedish, the Dutch, the Danes and other DPs had for decades each targeted selected LGAs through so-called "Area Based Programmes". These projects were not all reflected in Government transfers to LGAs and some LGAs obviously received far more than others. From FY 2005/06 it became government policy to finance LGA capital/development expenditures through the LGDG system and most of the bilateral DP area-based projects were soon stopped and DPs co-financed instead the LGDG.

196. The LGDG is a formula-based allocation to LGAs that is provided to all LGAs that fulfil basic minimum conditions (primarily regarding financial management but also other governance indicators). The LGDG system provides an additional incentive for LGAs to adhere to good governance by adjusting the size of annual grant allocations according to previous years' performance. The number of LGAs that receive this "top-up grant" has for a number of years been included as a GBS PAF indicator (and the number of LGAs that receive the top-up has gradually climbed from some 20% to almost 100%). However, the real success of the grant incentive structure is whether it effectively leads to continuous and real improvements in LGAs' performance. PMO-RALG's recent evaluation suggests that the performance measurements have steadily become less challenging and the system would need substantive review if it again should be effective as a tool for spurring LGAs to improve their performance.

Table 19: LGDG Sectoral Windows: Budgeted Grant Ceilings, 2004/05 – 2011/12

(budgeted amounts, Tsh Billions)

Financial Year	CORE LGDG	ASDP	RWSSP	HSDG	OTHER SECTORS	TOTAL LGDG SYSTEM
2004/05	6.0	0.0	0.0	0.0	0.0	6.0
2005/06	67.1	0.0	0.0	0.0	0.0	67.1
2006/07	76.8	4.7	0.0	0.0	0.0	81.5
2007/08	71.4	51.4	69.6	0.0	3.6	196.2
2008/09	78.4	54.4	62.4	0.0	5.0	200.2
2009/10	118.6	53.3	65.6	29.2	18.0	284.6
2010/11	175.2	55.6	63.2	20.0	0.0	314.1
2011/12	208.4	42.1	142.2	10.8	0.0	403.4

Sources: Annual Performance Assessment Synthesis Reports (2005-2011)

197. The LGDG has been quite successful in establishing a government modality for financing local government development and capital expenditures. In addition to the core LGDG, several sector windows with earmarked development funding for agriculture, water, health etc. have been established and significantly increased the level of "on – budget" development funding. It should be noted that in addition to the formula-based development grants, the Government has in

recent years included additional development funds on a non-formula basis. Some of this includes funding for attracting staff to "under-served areas".

Reliability and timeliness of fund releases

198. **Actual releases for LGDG and all LGA development funds have fallen short of budget allocations.** The LGDG system was in the beginning almost entirely financed by DPs, but it was agreed that the growth of the LGDG should be financed from increased GoT allocations. In FY 2009/10 these materialised but in the subsequent year GoT failed to make the intended contributions due to fiscal constraints.

199. **The timeliness of releases has also been a consistent problem for development grant transfers to LGAs** – whereas GoT recurrent allocations have generally been timely[59]. In the first years of LGDG implementation it was in particular problematic for the sector windows of the LGDG whereas in later years it has also been a problem for the core LGDG. It is common that LGAs receive funds late in the fiscal year – and often in the very last month of the fiscal year, which leads to significant roll over of funds, which have proved difficult for PMO-RALG and MoF to reconcile. (PMO-RALG, 2012, *LGSP Evaluation*.)

Table 20: Core LGDG - Disbursements by source, 2004/05 – 2011/12
(actual amounts, US$ millions)

Financial Year	LGDG universe	GOT allocations (LGDG)	DP-funded allocations	IDA-funded allocations	Core LGDG (Total)
2004/05	**47**		4.5		4.5
2005/06	**113**	5.3	18.2	16.0	39.5
2006/07	**121**	4.7	24.6	16.1	45.4
2007/08	**121**	2.1	41.6	14.7	58.3
2008/09	**132**	4.4	41.6	22.2	68.2
2009/10	**132**	33.5	43.0	15.3	91.7
2010/11	**132**	16.7	46.7	12.5	75.9
Total for period		**66.5**	**220.1**	**96.8**	**383.5**

Sources: Cumulative Annual Assessment Report 2004/05-2006/07 (July 2008); World Bank LGSP AM (March 2009); Annual LGDP Reports (2008/09 – 2010/11).

200. Table 21 shows the degree of completeness and timeliness of the core LGDG disbursements between quarters. The top portion of the table shows the planned grant disbursements for the year (in bold), along with the actual quarterly grant disbursements in nominal terms by quarter. The second segment of the table reflects the cumulative quarterly disbursements expressed as a percentage of the budget plan. The bottom segment of the table presents the cumulative grant disbursements as a percentage of the total realized disbursements. If grant disbursement were made proportionally over the four quarters, one would expect cumulative quarterly disbursements to equal 25, 50, 75 and 100% for each of the consecutive quarters.

59 Boex, Jamie and Per Tidemand, October 2008, *Intergovernmental funding flows and budget execution in Tanzania*

Table 21: Completeness and timeliness of Core LGDG disbursements

	FY 2008/09	FY 2009/10	FY 2010/11
	Tsh. Billions		
Budget Plan	**78.43**	**118.55**	**175.24**
Quarter I	20.85	21.14	21.32
Quarter II	2.50	64.51	21.32
Quarter III	36.79	22.25	27.82
Quarter IV	18.29	10.86	38.87
Total Disbursements	78.43	118.76	109.33
	Cumulative disbursements (as percent of budget plan)		
Quarter I	26.58	17.83	12.17
Quarter II	29.77	72.25	24.33
Quarter III	76.68	91.02	40.21
Quarter IV	100.00	100.18	62.39
	Cumulative disbursements (as percent of total disbursements)		
Quarter I	26.58	17.80	19.50
Quarter II	29.77	72.12	39.00
Quarter III	76.68	90.86	64.45
Quarter IV	100.00	100.00	100.00

Source: PMO-RALG 2012: LGSP evaluation of component 1 & 3.

201. In terms of completeness, for FY 2008/09 and 2009/10, the core LGDG was disbursed in a complete manner, with the total disbursement equalling the budget amount. In FY 2010/11, the GoT suffered major fiscal and cash flow issues. In that year, the total amount of LGDG disbursements amounted to only 62 percent of the total amount that LGDG had committed to disburse. Given the size and nature of the fiscal shortfalls being faced by the GoT, the reduction in contributions to the LGDG was not an unreasonable response but as may be seen from Table 21, it also influenced the timeliness of releases, with the largest release taking place in the last quarter of the year.

LGA Fund utilisation and reporting

202. **Prior to 2004, no systematic monitoring and reporting of LGA finances took place in Tanzania,** other than irregular and inconsistent top-down inspections and monitoring, done separately by PMO-RALG, MOF, and regional officials. No consistent financial picture was available of the local government sector. The only data that was regularly collected on an annual basis for LGAs was the total amount of each LGA's annual local revenue collections.

203. Since 2005/06, PMO-RALG has systematically collected quarterly Council Financial Reports (CFRs). These reports are collected in Excel format and provide a relatively detailed overview of LGA finances in each council, including details on own revenue collections, receipts of intergovernmental transfers, and local expenditures. These reports are made publicly available on the internet (first, on www.logintanzania.net and now on PMO-RALG's main website). From 2004-2007, the increasingly available local government finance data were used to produce a series of annual Local Government Finance Reviews. In 2009, PMO-RALG developed an Excel-based Council Development Report that sought to facilitate the collection of the mandated quarterly physical and financial progress reports for local development projects.

204. **Thus, over the evaluation period reporting systems have improved for LGAs, but**

consistency and reliability of data is still a challenge. MoF does not report comprehensively on actual transfers to LGAs (although its website includes some selected data) and Council Financial Reports are essentially self-reported data from the LGAs that is only partially checked by PMO-RALG.

205. **Reports from the CAG indicate significant improvements in LGA financial management**. By FY 2006/07 LGAs were no longer receiving "adverse" audit opinions – indeed, 81% of the LGAs received a "clean" audit in this year. LGAs have since then maintained almost zero adverse audits, whereas the number of qualified audits has been fairly constant at 40-48%.

Quality of Human Resource Management

206. **The Government took stock of progress on its pay reform in 2009 in order to prepare a new Pay and Incentive Policy published 2010**[60]. It was noted that significant progress had been achieved with regards to meeting overall wage bill targets for the majority of employees but that significant challenges remained with regards to "competiveness of public service pay, disparities of pay, ad hoc approaches to adjusting public servants' pay, staffing problems in some LGAs, increasing trend of employment allowances, decentralisation, management of HR and accountability"[61]. Unfortunately, the new policy (as of May 2012) is yet to be followed by a strategy and implementation plan to guide employers on its use. One of the key measures proposed in the new policy is to link pay with performance. The other is to introduce incentives for staff living in hard to reach areas. Both areas have for long been highlighted as critical issues[62].

207. The Public Service Act (2004) aimed among other things to strengthen merit based HRM and introduced some measures for decentralized HRM (to MDAs and LGAs). The Public Service Commission (PO-PSC) subsequently conducted inspections to ensure compliance to rules and procedures in the public service. During the period of April 2005 to June 2008, about 161 institutions were inspected in the Tanzania Mainland. The results from the Human Resource Compliance Inspections revealed that there is evidence of improvement in compliance with the rules and procedures governing the merit based recruitment and selection from 54% in 2005/06 to 72% in the 2007/08. Unfortunately, PSC has since then not received budget funding to undertake the inspections.

208. Government centralized some aspects of HRM with the establishment of the Public Service

60 In 1998 the Cabinet approved the Public Service Medium Term Pay Policy (MTPP). In 1999 the Medium Term Pay Reform Strategy (MTPRS) was adopted to operationalise the MTPP. While initially being designed to cover the period FY00/01 – FY04/05, the MTPRS was later extended to cover the period FY00/01 — FY07/08

61 United Republic of Tanzaia, PO-PSM: Public Service Pay and Incentive Policy, 2010.

62 The former MTPRS sought to link staff performance with fiscal incentives through the SASE scheme but the implementation approach failed to make this link. The problems with attraction and retention of staff in "disadvantaged districts" were analysed by PMO-RALG in 2005.

Recruitment Secretariat in January, 2009 in accordance with the Public Service (Amendment) Act, 2007 Section No.29 -The aim of the Secretariat is to facilitate recruitment of employees in the Ministries, independent Departments, Executive Agencies (MDAs) and other Public Institutions.

209. Another relatively successful aspect of HRM reforms has been the implementation of the Lawson Human Capital Management Information System as an integrated payroll and human resources database. It allows the MoF to run the payroll using the Lawson system based on the human resources data that is available in real time and opens up for PO-PSM to decentralize accountability for integrity of human resources data to employers, thus strengthening human resources management in MDAs.

Budget Support Impact on Mechanisms for Local Service Delivery

210. **Over the evaluation period, the Government has in several ways sought to improve the quality of public administration systems for local service delivery.** The level of funding of LGAs for local service delivery has increased dramatically. Government transfers for development expenditures have increased from Tsh. 70 billion to Tsh. 300 billion in six years. Development grant transfers for LGAs are now to a large extent through a formula-based LGDG, although efforts to introduce a formula-based allocation for the recurrent budget have been abandoned. Government has given preference to disadvantaged LGAs in the assignment of staff although only minor elements of schemes for staff retention have been supported. Pay reform has progressed slowly but special incentive schemes for staff in disadvantaged districts have been piloted since 2007/08, and received increased funding in 2011/12.

211. **The added resources from GBS have allowed GoT gradually to take ownership of the development grant transfer system** that otherwise would have been almost fully externally funded. The added fiscal space has also allowed GoT to progress with pay reform and staff allocations to disadvantaged LGAs (as part of a wider expansion of social sectors). Unfortunately, significant budget reallocations during the execution process have remained a consistent feature of the national budget process and have often led to delays and/or reductions in the transfer of resources to LGAs, which has reduced the potential benefits of the expanded value of transfers.

212. **The Budget Support dialogue on LGR issues through the PAF has been conflictive and generally ineffective**. The LGRP itself has only been assessed as “satisfactory” in two out of five years and on several indicators GoT and DPs have disagreed on the assessment results. The inclusion of indicators related to formula-based LGA grant allocations have not enabled progress in this area. Progress on pay reform has also been rated negatively in PAF dialogue. Both of these are politically-sensitive areas in Tanzania, just as they would be in most countries, and to attempt to force progress through the use of specific targets was clearly a self-defeating strategy. The more recent emphasis in PAF dialogue on broader outcome issues like “increased equity” – is more likely to constitute the basis for a sound policy dialogue in future.

213. **Overall, the influence of Budget Support on the improvements in service delivery processes at local government level must be considered modest**. The availability of

increased funding was important but the innovations introduced for LGA financing (notably the LGDG scheme), the improvements in reporting and the broader development of capacities at the LGA level were driven by the LGRP, which was supported by DPs through projects and a CBF. Arguably, the conflictive nature of Budget Support dialogue on local government reform issues may even have slowed down the progress, which could have been made in this area.

4. Changes at Outcome and Impact levels

214. Chapter Four reports on Step Two of the analysis. It examines the main Outcomes and Impacts, which have been generated during the evaluation period. Using different quantitative and qualitative analytical techniques, the EQs seek to identify the key determinants of change over the period. In particular, they assess the relative significance, amongst other factors, of the changes in Government's allocative and policy decisions, which were identified in Step One as having been induced by Budget Support processes. In order to clarify the links to Step One, each section concludes with an analysis of the influence of Budget Support on the induced outputs identified as key determinants of outcomes and impacts. Three areas are examined:

- Economic growth and private sector development;
- Poverty reduction and social welfare; and
- Education sector outputs and outcomes.

4.1. Economic Growth and Private Sector development

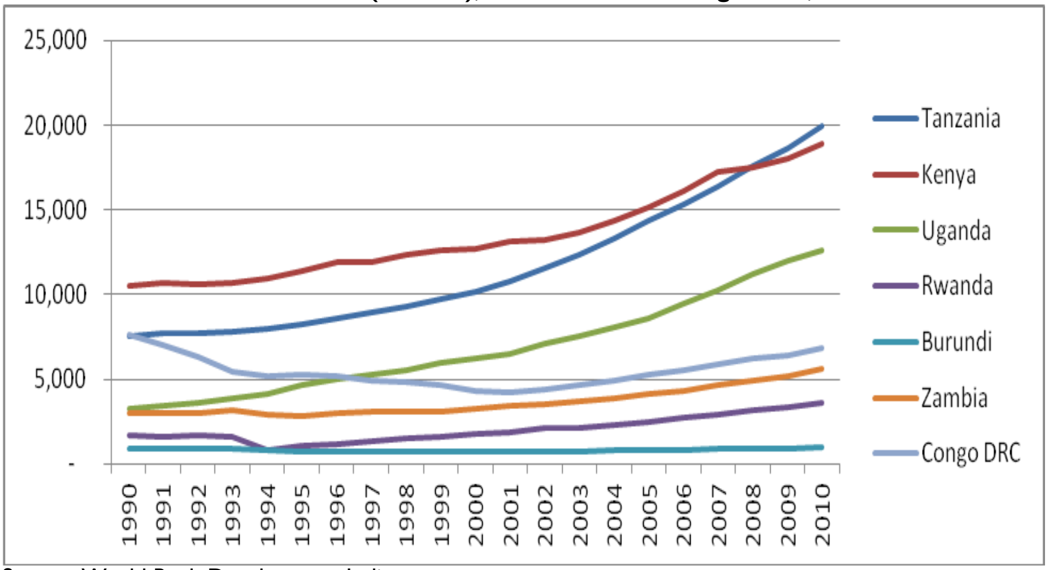
Growth performance

215. **Over the past decade, Tanzania has experienced some of the highest growth rates in Sub-Saharan Africa.** For the first time since independence, it has broken out of the cycle of short-lived accelerations in growth that has characterised many low-income countries, enjoying strong uninterrupted growth since the mid-1990s. Real GDP growth has increased substantially from below 4% in the early 1990s to an annual average of around 7% during the 2000s (MoF, 2011). The MKUKUTA I target of average annual GDP growth of between 6% and 8% by 2010 has therefore been achieved.

216. The relatively small year-on-year fluctuations in GDP growth since 2001 indicate that the economy has been resilient to shocks. The fluctuations in growth over the past ten years were largely related to weather extremes, especially droughts, which affected agriculture and hydropower generation. There was some slowdown in growth in 2009, mainly as a result of the global financial crisis, but the economy has been remarkably resilient to a weakening external environment.

217. The World Bank (2010) argues that Tanzania's low-geared banks and relatively inward-looking pattern of growth insulated it from the financial shock and, to a degree, from external demand shocks. As it turned out, the terms of trade effects of the crisis were generally quite positive for Tanzania, and the import bill declined faster than export earnings, largely due to falling prices of fuel and intermediate goods. Figure 24 illustrates that Tanzania's growth has been considerably faster than its neighbours.

Figure 24: GDP in 2000 constant US$ (millions), for Tanzania and neighbours, 1990 – 2010

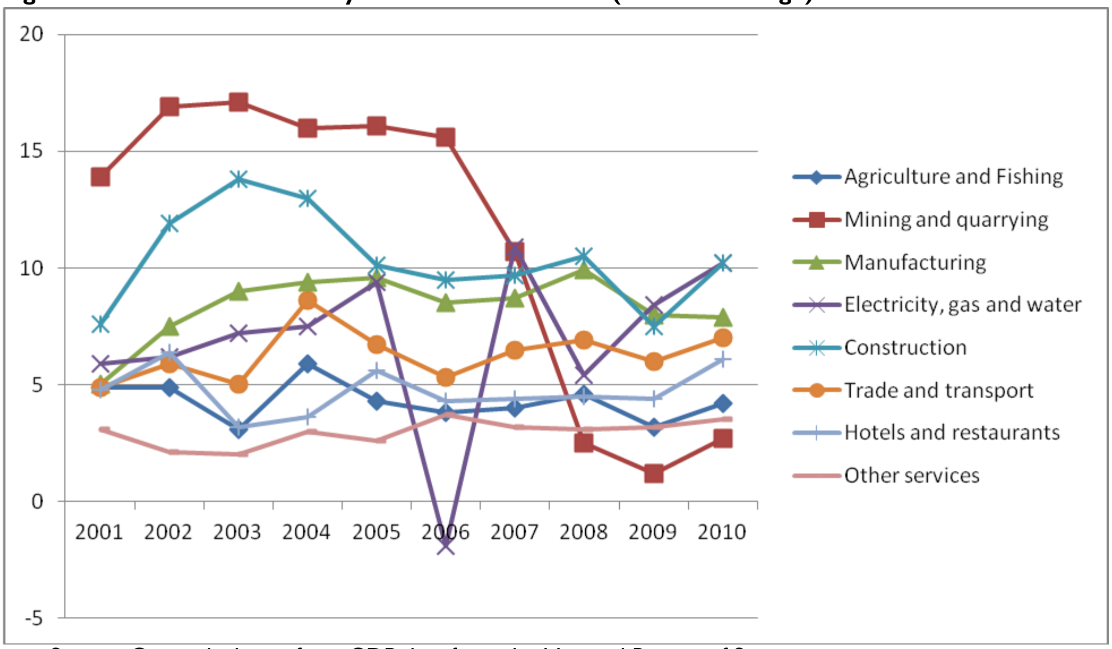


Source: World Bank Development Indicators

Composition of economic growth

218. The inter-sectoral contribution to GDP has shifted considerably over the past 10 years. The contribution of the agricultural sector to GDP has declined from 29% in 2001 to 24% in 2010. The growth rate in agriculture averaged 4.3% over the period 2000-2010, well below the MKUKUTA target of 10%. Manufacturing sector growth increased from 4.8% in 2000 to a peak of 9.9% in 2008 before dropping to 7.9% in 2010 – also falling short of MKUKUTA's target of reaching 15% by 2010.

Figure 25: Real GDP Growth by main Sectors 2005-10 (% annual change)



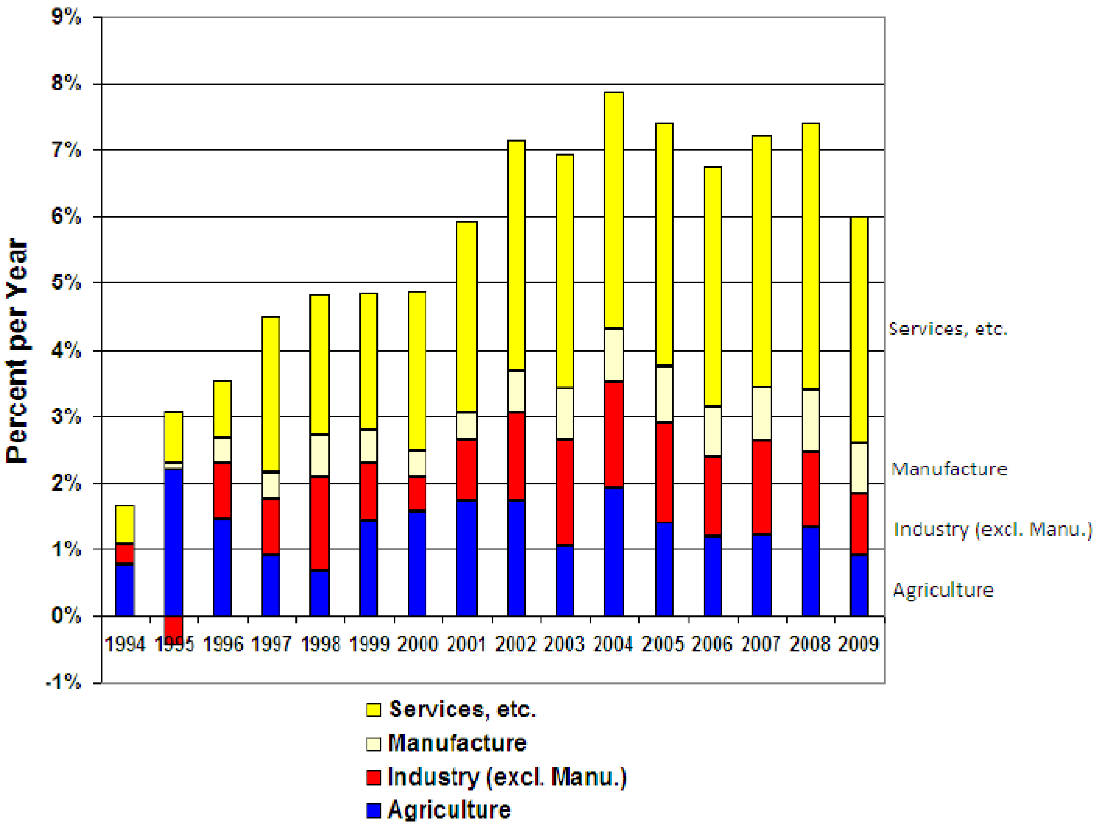
Source: Own calculation from GDP data from the National Bureau of Statistics.

219. The services sector remains the largest sector of the economy. Tourism constitutes a substantial part of the services sector (contributing to over 17% of GDP and nearly 40% of total export earnings). Tourism, mining and manufacturing have grown, but greater growth has been

experienced in sectors meeting domestic demand: food and non-traded or non-tradable goods and services like construction, trade and repairs, and telecommunications. Domestic demand has been fuelled by domestic credit growth, foreign investment, aid and debt relief, and expanded export earnings.

220. Figure 26 shows the contribution of each of the main economic sectors to economic growth. Whilst agricultural growth contributed the largest share to GDP growth in the 1990s, the service sector has clearly been driving the country's growth during the 2000s. Nonetheless agriculture remains a significant driver of growth since it still has a large, albeit declining share in the economy. This points to the benefits that could be yielded from increasing productivity and growth in agriculture.

Figure 26: Contribution (in real terms) of the economy's sectors to total GDP growth



Source: Moyo et al (2012)

221. Goods exports from Tanzania have traditionally been dominated by agricultural commodities (coffee, tea, cashew nuts, and cotton). However, in the past decade, non-traditional goods exports have grown to represent a significant share of total exports. Today, mining exports constitute about 50% of total goods exports. There has also been significant growth in exports of horticulture, cut flowers, and live animals. This suggests that the drive to diversify the export product basket is succeeding following the implementation of trade policy and other key reforms. New export products have been accompanied with new export markets – including expanding exports to the sub-region (EAC, SADC, COMESA) and to some Gulf countries.

Drivers and obstacles to growth

222. **The acceleration of Tanzania's growth performance has been primarily driven by domestic demand, not exports.** Large increases in both consumption and investment have been recorded, in both cases reflecting significant increases in public spending (Robinson et al).

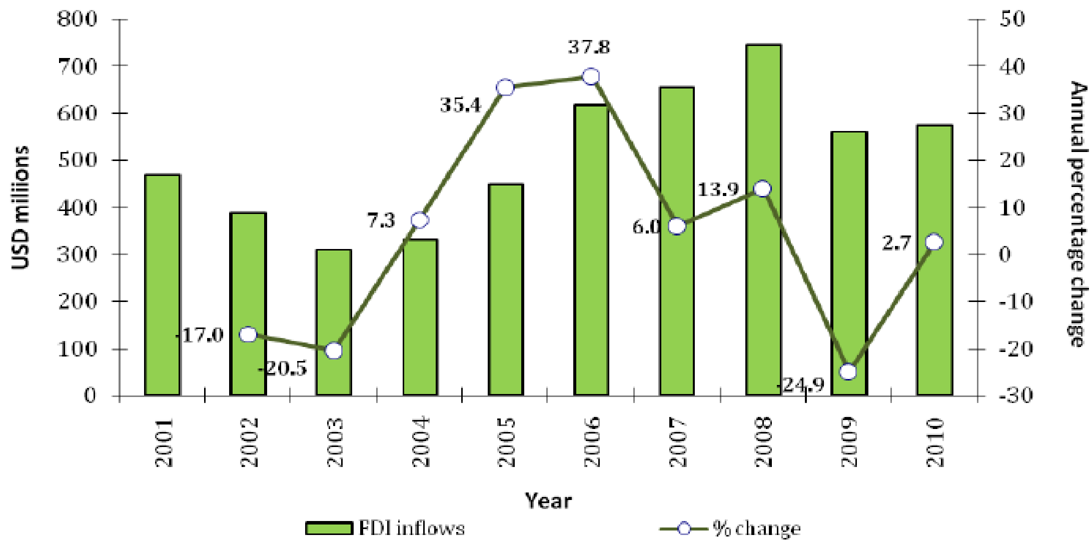
Table 22: Private credit in Tanzania 2005-10

	2005	2006	2007	2008	2009	2010
Total Credit to GDP Ratio	10.5	11.7	13.5	17.0	18.1	21.1
Private Sector Credit to GDP	8.9	11.3	15.0	18.4	17.4	18.6
Ratio of Private Credit to Total Credit	84.6	96.3	111.3	107.9	97.5	88.1

Source: Bank of Tanzania, Quarterly Report, September 2011

223. **Credit to the private sector has increased from an average of less than 6% of GDP in 2002 to over18% of GDP in 2010** (MoF, 2011). In part this is because, in recent years, the Government has restrained its own borrowing from domestic banks in order to make more financial resources available to the private sector. However despite the upward trend of domestic credit to private sector, it remains low compared to other developing countries.

Figure 27: Total FDI inflows (in USD millions) and annual percentage change, 2001-2010



Source: Ministry of Finance and Economic Affairs

224. **Foreign direct investment (FDI) inflows increased every year between 2003 and 2008 (to a peak of USD 744 million).** However, a steep decline in receipts of 25% was recorded in 2009 due to the adverse impact of the global financial crisis, which led to postponement of some foreign investments (Figure 27). FDI has been concentrated in mining and tourism. For the period 2000 to 2010, FDI to Tanzania averaged USD 509 million annually.

225. **The Global Competitiveness Report 2010–2011 highlights national infrastructure – roads, ports, electricity supply and telephone lines – as key constraints to private sector development.** The Global Competitiveness Report 2010-11 reports that interruptions to the electricity supply remain the most serious concern for businesses in Tanzania – a point

also emphasised by the private sector focus group. The demand for electricity exceeds supply by about 28%. While most large firms have access to private generators, many small firms do not. The poor quality of port infrastructure, lack of efficient intermodal connections and high operating costs arguably hold Tanzania back from exploiting its strategic geographical location. Access to finance is an additional bottleneck, although Tanzania has made considerable efforts to reform the financial sector.

226. **Tanzania's overall ranking in the World Bank's Doing Business Indicators improved from 142 to 124 from 2007 to 2008, but has not since improved further.** (Table 23.) The most significant improvements have been in enforcing contracts and getting credit but there has been deterioration in trading across borders. Table 24 reports performance of selected top reformers in Africa. It shows that Tanzania's indicators remain worse than some of its neighbours, including Rwanda and Zambia, and that its ranking has fallen marginally since 2008.

Table 23: Tanzania's Doing Business Indicators (2007-11)

	2007	2008	2009	2010	2011
Overall Ease of Doing Business	**142**	**124**	**126**	**125**	**128**
Starting Business	127	95	109	120	122
Dealing with Construction Permits	172	170	172	178	179
Employing Workers	143	151	140	131	-
Registering Property	157	160	142	145	151
Getting Credit	117	115	84	87	89
Protecting Investors	99	83	88	93	93
Paying Taxes	113	104	109	119	120
Trading Across Borders	67	100	103	108	109
Enforcing Contracts	65	35	33	31	32
Closing Business	105	109	111	113	113

Source: World Bank Doing Business Reports (various years)

Table 24: Tanzania's Doing Business Indicators compared to continent's top performers

	2007	2008	2009	2010	2011
Mauritius	32	29	24	17	20
South Africa	29	35	32	34	34
Botswana	48	52	39	45	52
Namibia	42	48	54	66	69
Rwanda	158	148	143	67	58
Zambia	102	101	99	90	76
Uganda	107	118	111	112	122
Tanzania	**142**	**124**	**126**	**125**	**128**

Source: World Bank Doing Business Reports (various years)

227. The 2009 Investment Climate Assessment for Tanzania (World Bank 2009) paints a slightly different picture. It finds that Tanzania's investment climate compares favourably with the investment climates of its small, land-locked neighbours such as Burundi, Rwanda, and Uganda. For example, the cost of exporting goods overseas from Tanzania—and the regulatory burden of doing so—is lower than from the three neighbouring countries. In addition, firms in Tanzania faced fewer losses because of power outages than firms in Uganda or Burundi. Tanzanian firms

are, on average, more productive and profitable than firms from its three land-locked neighbours. (See Table 25 and Figure 28.)

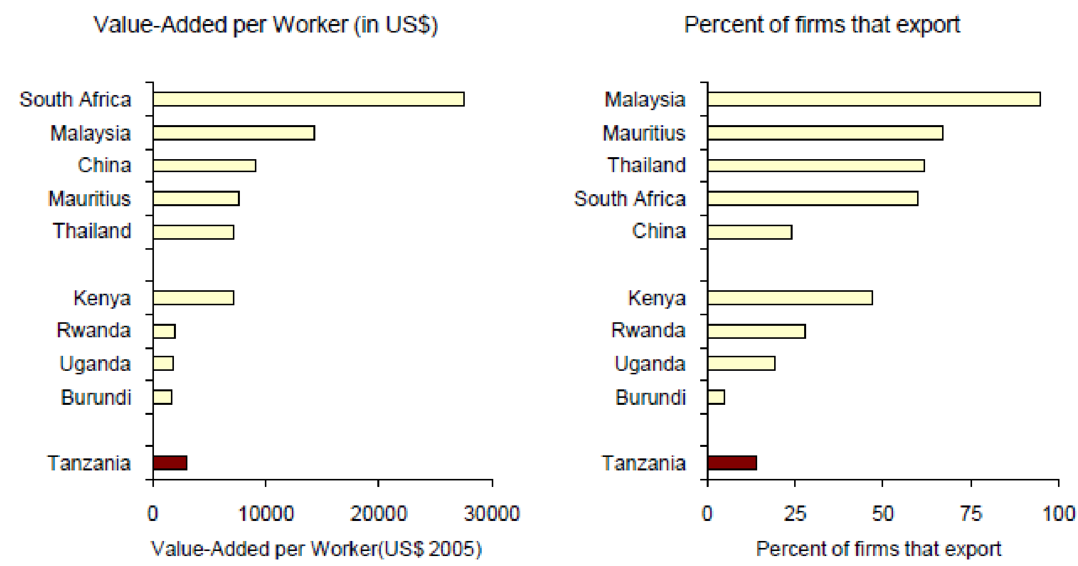
Table 25: Profitability (return on sales), by firm size

	All (%)	Small (%)	Large (%)
Mauritania	3	3	0
Gambia	9	3	---
Ghana	9	9	8
Guinea-Bissau	10	9	---
Rwanda	12	8	16
Uganda	13	13	21
Congo D.R.	15	17	15
Botswana	17	13	36
Guinea-Conakry	18	18	20
Angola	19	19	9
Burundi	20	20	-1
Tanzania	**21**	**18**	**29**
Kenya	24	17	23
Namibia	28	28	20
Swaziland	31	38	35

Source: World Bank Enterprise Survey.

Note: Data is from between 2006-2007. Return on sales is sales less costs (materials, wages, other miscellaneous costs) divided by sales. This is used rather than return on assets due to difficulty of measuring assets accurately. Comparisons are for manufacturing firms only. All values are for the median firm in each country. Observations presenting medians for groups with less than five observations are dropped.

Figure 28: Labour productivity and propensity of Tanzanian firms to export



Source: World Bank Enterprise Surveys.

228. Surprisingly, the propensity for Tanzanian firms to export is lower than for its landlocked neighbours – fewer manufacturing firms in Tanzania exported (14 %) than in either Uganda or Rwanda (19 and 28% respectively), which does not reflect favourably on the international competitivess of Tanzanian manufacturing. Tanzania's investment climate compares less favourably with the investment climates of other countries in Sub-Saharan Africa with similar

coastal locations such as Kenya and South Africa. Moreover, it compares even less favourably with the investment climates of other emerging markets that have successfully diversified into export-oriented manufacturing such as Mauritius, China, Malaysia and Thailand.

Explaining the growth performance in the light of Step One findings

229. **The 'flow of funds effect' of budget support has enabled the government to increase development spending without recourse to domestic borrowing, which supported private sector investment in three ways.** Firstly, Budget Support funds facilitated an expansion in domestically financed development spending from 1.8 % of GDP in 2005/06 to 4.6 % in 2011/12. A significant portion of the incremental development spending was dedicated to the roads sector, helping to address the infrastructure constraints on private sector growth. Secondly, by financing this expansion without recourse to borrowing, the Government restrained its demands on the domestic banking sector and thus facilitated the rapid increase in the ratio of private sector credit to GDP (a "crowding-in" effect). Thirdly, by assisting in keeping the fiscal deficit within sustainable limits, Budget Support funds also contributed to the macroeconomic stability, which has encouraged growth in FDI inflows.

230. **The value of Budget Support and its relevance to the maintenance of a stable but growth-focused fiscal position should not be under-estimated**. As a fully discretionary, predictable and fast-disbursing source of finance, Budget Support is especially important in facilitating changes in the composition of the budget**.** In order to illustrate this point, it is worth considering the policy measures, which the Government of Tanzania would have had to consider if Budget Support had been withdrawn. Although the volume of Budget Support disbursements has declined from an average of 3.9 % of GDP over the first five years of the evaluation period to 2.7 % and 2.2 % respectively in the last two fiscal years, removing this financing from the Budget would have compelled the Government to face a difficult choice of fiscal policy decisions:

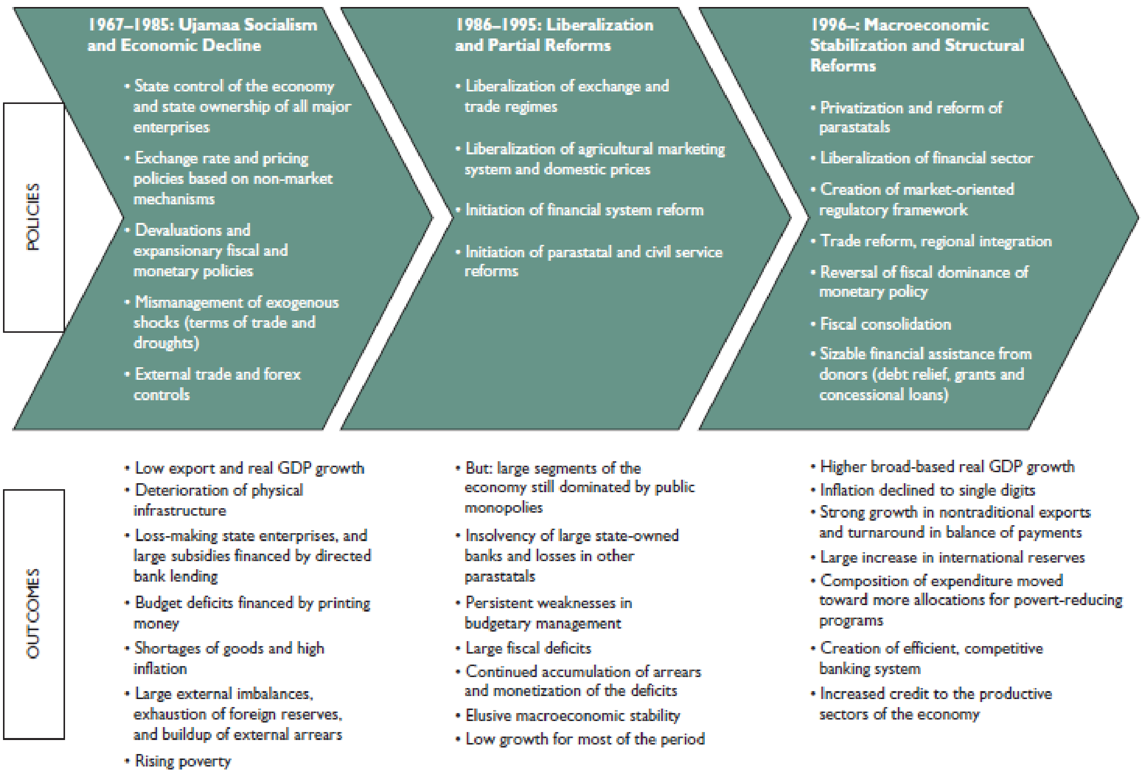
- Either to reduce domestically financed development spending (in most years eliminating such spending altogether, because only in 2011/12 was its volume greater than that of Budget Support);
- Or to attempt to squeeze recurrent spending, which would have been politically and administratively difficult;
- Or to seek additional domestic borrowing, (and given that net domestic borrowing has averaged only 1.3 % of GDP over the period, this would have required a dramatic increase with serious interest rate effects);
- Or to seek non-concessional external borrowing, (which would have been significantly more expensive, not straightforward to secure, and limited in its scope).

231. The flow of funds effect has clearly been important but to what extent has Budget Support dialogue facilitated the structural and policy changes, which have contributed to Tanzania's growth? The first point to stress in response is that Tanzania's move to a higher growth

trajectory came following a prolonged period of substantial economic reform. (Robinson et al identify three distinct phases in economic policy making: see Figure 29). The policy determinants of Tanzania's recent growth acceleration lay in policy reforms (restoration of macroeconomic stability, privatisation, trade reform, financial sector liberalisation, and fiscal consolidation), which took place prior to the evaluation period.

232. The improvements in the business environment that have occurred since 2000 have addressed factors that featured prominently among the concerns of budget-support donors as well as the private sector, and led to Tanzania being classified as amongst the top 10 global reformers in the 2007 Doing Business survey. These concerns include land regulation, the tax regime, labour regulations, and business licensing. Yet, most of these improvements also took place prior to the evaluation period.

Figure 29: Chronology of Transformation of Tanzania's Economy, 1967–2009



Source: Robinson et al.

233. **The pace of reforms to the business environment constraints has slowed and there is less evidence of a positive impact of PAF dialogue on pro-growth policies since 2007.** Further reform became complicated by the institutional challenges associated with coordinating and sequencing a reform programme whose mandate cut across a wide range of government ministries, departments and agencies. Efforts have been made to address these challenges. For example in 2009, the Prime Minister's Office appointed a Regulatory Reform Task Force to undertake an assessment of how regulatory barriers could be reformed to improve the business environment. This led to the development of an Investment Climate Roadmap, but to date this has had no notable effect on Tanzania's Doing Business ranking (See Tables 23 & 24.)

234. **There is evidence that the weakness of the policy dialogue under Budget Support made policy reform less progressive than might have been achieved under a more constructive dialogue process.** Chapter 2 has documented in detail the shortcomings of the Budget Support policy dialogue; it would seem that progress on policies for growth and private sector development suffered directly from these shortcomings.

4.2. Poverty Reduction & Social Welfare

Poverty trends

235. **The 2007 Household Budget Survey (HBS) reported that the proportion of people living in poverty decreased from 35.6% of the population in 2001 to 33.3% in 2007.** This reported reduction in the poverty ratio would not have compensated for the population growth rate of about 2.0% per year. (HDR, 2011) Consequently, the reported decline in the poverty rate would not have been sufficient to prevent an absolute increase in the number people living in poverty on mainland Tanzania between 2001 and 2007. However, we should stress that the reported decline in the poverty rate is within the boundaries of statistical error: it is therefore possible that the reduction in income poverty was in fact twice the reported amount but also that there was no income poverty reduction in Tanzania over the period.

236. Data on national income accounts show that between 2001 and 2007, Tanzania had an average 7% GDP growth rate. This gives cumulative real GDP growth of 51.7% over the period. Thus poverty rates have remained approximately constant in a context of impressive growth. To add to this puzzle, income inequality has also remained constant (Mkenda et al, 2010). It thus appears that the transition that has been observed at the macro level does not translate into increased household incomes.

237. More recent data from the National Panel Survey (NPS) of 2008/9 and 2010/11 suggest a continuation of the divergence between macroeconomic performance and poverty trends. Despite strong growth, the panel survey data indicate a worsening of the poverty rate in rural areas from 2007-2011. Poverty rates in rural areas rose by three percentage points while they displayed a modest fall in urban areas. Better crop prices appear to have been offset by inflation of input and non-food prices, with no net improvement in farmers' real incomes. Although considerable productivity gains and better farm gate prices are reported in certain crops and localities, they are not yet generalised throughout the country. The NPS also shows an increase in the rate of unemployment between the two surveys.

238. **Whilst income poverty has not declined significantly in the past decade, non-income measures of poverty have shown improvements**:

- From 2000 to 2011, Tanzania's Human Development Index increased from 0.364 to 0.466 (HDR, 2011), shifting from significantly below the SSA average to slightly above it.
- The 2000/1 and 2007 Household Budget Surveys (HBS) show improvements in some

indications of welfare (education and ownership of assets).

- Since 2003, HIV prevalence in adults (15-49 years) has declined in both males and females, across most age groups.
- The incidence of malaria, which has accounted for the largest burden of morbidity and mortality in Tanzania, especially among young children, has substantially improved with the introduction of insecticide-treated nets.
- There has been progress in the reduction of under five and infant (under one year) mortality and Tanzania is now on track to meet MDG4. The improvement in child survival since 1999 is most likely explained by gains in malaria control. Neo-natal mortality decreased at a slower rate, from 59/1000 in 1999 to 36/1000 in 2004 and 29/1000 in 2007/2008.

Explaining the divergence between growth and poverty trends

239. Tanzania's low poverty-elasticity of growth, (i.e. the lack of progress in income poverty reduction despite strong economic growth) has been explained in a number of ways, which we consider below:

- The sectoral composition of GDP growth;
- Mismatches between national accounts and other estimates of agricultural output;
- Structural shifts within the agriculture sector;
- Increases in public consumption, which are not reflected in income poverty estimates; and
- The fact that the incomes of a significant number of the poor may have been so far from the poverty line that even a significant increase in income was insufficient to lift them out of poverty. (In other words, that the poverty gap was too great.)

Sectoral composition of GDP growth

240. The relative sectoral contributions to GDP growth differ considerably from the distribution of the labour force employed by sector. According to the 2006 Integrated Labour Force Survey, "approximately three quarters (74.7%) of Tanzanians of working age are currently employed in agriculture" (NBS, 2007). Yet, the fastest growing sectors are, first, Mining and quarrying, which employs 1% of Tanzania's workforce, second, Construction, which employs 2.2%, third Telecommunications, which employs 3%, and fourth, Financial intermediation, which employs only 0.2% of the workforce.

241. Clearly this disconnection between the distribution of employment and the sectoral composition of GDP growth provides an indication of why growth in Tanzania may not be as broad-based as envisaged in the MKUKUTA. Indeed, unless agriculture drives the growth - at least in the short to medium term, broad-based growth cannot be expected.

242. It is also notable that the contribution of the agricultural sector has declined. The Poverty and Human Development Report (PHDR) draws attention to a striking result from the HBS: "the

proportion of income derived from agricultural sources has declined from 60% in 2000/1 to 50% in 2007".

Mismatches between national accounts and other estimates of agricultural output

243. Mkenda, Luvanda and Ruhinduka (2010) argue that the national accounts estimates of the growth of agricultural output may be overstated. In the case of maize, the NBS figures, which underlie the national income estimates, show a growth of 34% between 2001 and 2007, whereas the Ministry of Agriculture figures show a rise of 28%. The mismatch between survey and national accounts data may therefore be due in part to an overstatement of growth in the national accounts.

244. However, agriculture is not the sector driving growth so the lowering of the estimate of agricultural growth would not significantly impact upon the GDP growth rate. The more worrying statistic is that even the higher national accounts figure for growth in production (34%) does not equate to a level of annual agricultural output growth as high as the recorded rate of growth of GDP. Both sets of data imply low growth in agriculture, meaning low income growth for the majority of Tanzanians, a scenario consistent with the limited reduction in income poverty, reported in the NBS and the NPS.

Structural shifts within the agriculture sector

245. Pauw & Thurlow (2010) argue that the country's low poverty elasticity of growth is primarily a result of the current structure of agricultural growth, which favours larger-scale production of rice, wheat, and traditional export crops. This suggests that accelerating agricultural growth in a wider range of subsectors than those currently leading the growth process is needed to strengthen the effectiveness of growth at reducing poverty and improving the availability of calories in households.

Increases in public consumption, which are not reflected in income poverty estimates

246. Significant increases in public consumption have been a major contributor to GDP growth and to improvements non-income measures of poverty. For example:

- Annual government spending on education has increased fourfold since 2000, with 4 million more children in primary school and 1.2m more in secondary school. The number of teachers has increased by 40% and the number of schools by 33%.
- Annual government spending on health has more than quadrupled to US$600 million since 2000. Under five mortality rates have fallen by almost 40%, and nearly 90% of children are vaccinated against diphtheria, whooping cough and tetanus.

247. The official HBS analysis excludes government expenditure on education, health and water from the consumption aggregate used for poverty analysis. There is significant evidence (Mkenda et al, 2010) that while the poor have reduced their expenditure on health and education, the access of the poor to publicly provided health and education has increased over the past decade. Such

dimensions of welfare improvement are not included in the standard income-based poverty analysis, but are prominent in the Human Development Index, where improvements have been observed during the evaluation period.

248. This trend is confirmed by HBS findings that the share of household consumption fell from 75% to 72.6% of GDP from 2001 to 2007 and, whilst cumulative GDP grew by 51.7% over the period, the 46.8% growth in household consumption was slower.

249. A possible implication of these findings is that whilst strong GDP growth has not led to significant reductions in income poverty, this may be due to significant lags between investments in stronger human capital (through public health and education spending) and private sector growth. There is evidence from cross-country panel data that such a time lag is particularly significant with education investments. For example, Baldacci et al (2004) find that two-thirds of the direct impact of education spending on growth is felt within five years, but the full impact materializes with a significant time lag of 10 to 15 years.

Poverty gap

250. A final possible explanation is that the impact of economic growth was compromised by a large proportion of people classified as poor being a long way below the poverty line at the start of the period, meaning that a significant increase in incomes was insufficient for many to rise above the poverty line. This possibility is considered by Mkenda, Luvanda and Ruhinduka (2010). The HBS set the poverty line at Tsh. 7,253 per month for 2000/01 and Tsh. 13,998 for 2007. 32% of the poor population were less than Tsh. 1,300 per month below the povery line. At constant 2001 prices, an average growth rate of 3.21 per cent in consumption would be enough to move this group above the poverty line by 2007. In 2007, only 19% of the poor population consumed less than Tsh. 1,300 per month, which implies that the proportion of the poor who were more than Tsh. 1,300 per month from the poverty line actually grew during the period.

Expalining poverty reduction trends in the light of Step One findings

251. **The evolution of poverty during the evaluation period is largely a consequence of policy and spending decisions taken in earlier periods.** As we noted in Chapter 2, the 2004-05 evaluation of Budget Support was one amongst several reports, which warned that the pattern of GDP growth – influenced as it was by the slow restructuring of the agriculture sector – was unlikely to generate sharp reductions in income poverty. The results of the 2007 HBS and the subsequent National Panel Survey have unfortunately confirmed this to be true.

252. However, to what extent has Budget Support helped to improve the scope for faster income poverty reduction in future? In relation to the effects of Budget Support funding flows, the analysis of Chapter 3 has shown that the evolution of public spending in Tanzania has been consistent with the priorities set out in MKUKUTA, and that the government has significantly increased spending in sectors considered as key to reducing income poverty, including roads, agriculture and energy.

253. **The sharp rise in spending on the roads sector, as well as on the education sector, would almost certainly not have been possible in the absence of GBS and, to a lesser extent, SBS**. Within these sectors it is specifically domestically financed development expenditure that is most likely to have benefitted from Budget Support funding. (See section 3.3)

254. To what extent has the policy dialogue linked to Budget Support helped to promote policy reforms, likely to permit faster poverty reduction? Questions related to the business environment have featured prominently within the PAF but, as we have noted in section 2.3, the specific indicators, around which discussions have focussed, have tended to be subject to frequent change and have not provided a basis for a strategic, problem-solving dialogue.

255. Agricultural policy has scarcely featured within the Budget Support dialogue. Despite the fact that a whole new national agricultural policy (*Kilimo Kwanza* – "Agriculture First", in Ki-swahili) was launched during the evaluation period, and a number of high profile public spending initiatives have been started, notably the National Agricultural Input Voucher Scheme and the development of the Southern Agricultural Growth Corridor of Tanzania, these policy developments have taken place outside of the framework of the annual joint agriculture sector review and the annual Budget Support review, and have not been the subject of monitoring targets incorporated in the PAF. Although Kilimo Kwanza was discussed during the 2009 and 2010 annual joint agriculture reviews, there is no evidence that these discussions had any influence on government thinking.

256. **The scope of influence of a Budget Support policy dialogue focused on poverty reduction has obviously been fundamentally weakened by the virtual exclusion of agricultural policy issues**. Given that the key policy-related explanation for the weak poverty elasticity of growth in Tanzania relates to agriculture, and that the majority of the extreme poor in Tanzania live in rural areas, this is a serious limitation of the budget support dialogue process.

4.3. Performance of the Education Sector

257. This section analyses the principal changes in the performance of the education sector, which have taken place during the evaluation period. In particular, it analyses changes in the coverage, quality and equity of provision of primary and secondary education. It then identifies – drawing on an econometric analysis – the critical determining factors which have driven and shaped these changes, considering external, domestic and government policy related variables. Finally, it considers the relative importance of those changes in government policy and in sectoral expenditures, which have been "induced" or facilitated by GBS or SBS[63].

Education policy and funding

258. **Education was designated as a 'priority sector' in MKUKUTA and has throughout the evaluation period commanded the highest share of the national budget.** Its budget

[63] For ease of presentation, this section therefore includes our conclusions with respect to those aspects of EQ 3.3 relating to education policy, spending and outputs as well as our conclusions with respect to EQ 4.2, addressing the determinants of the outcomes in the education sector.

share increased from 16.7 % of non-interest spending in 2005/06 to 18.1% in 2011/12, having peaked at 21.7% in 2007/08 (Table 16, Section 3.3). The main policy driving education during the period has been 'Education For All', which underpinned the Government's policy to expand access to primary and secondary education. This began in the early 2000s and was in line with the global agenda to increase the numbers of children attending school. Specific policy initiatives related to the expansion of education access were the abolition of primary school fees in 2001, the establishment of a cost-sharing scheme in higher education and the creation in 2005 of the Higher Education Student's Loan Board. Early Childhood Education was also expanded by creating a pre-primary stream in every primary school. Key policies during the period are presented in Figure 30.

Figure 30: Key Policies in the Education Sector

- The Primary Education Development Programme (PEDP) 2002-2006 and PEDP II 2007-2011
- The Secondary Education Development Programme (SEDP) 2004-2009, followed by the SEDP II 2010-2014;
- The Teacher Development and Management Strategy 2007-2012;
- The Folk Education Development Programme 2007-2012;
- The Adult Education and Non-formal Education Strategy; 2003/4-2007/8;
- The Higher Education Development Programme 2010-2015;
- The Technical and Vocational Education Development Programme (2011-2016);
- The Technical and Higher Education Sub Master Plan 2003–2018;
- The Gender Strategic Plan (2010/11-2014/15);
- The HIV/AID Strategic Plan (2008/09-2011/12); and
- The Environmental Education Strategy (2010-2014)

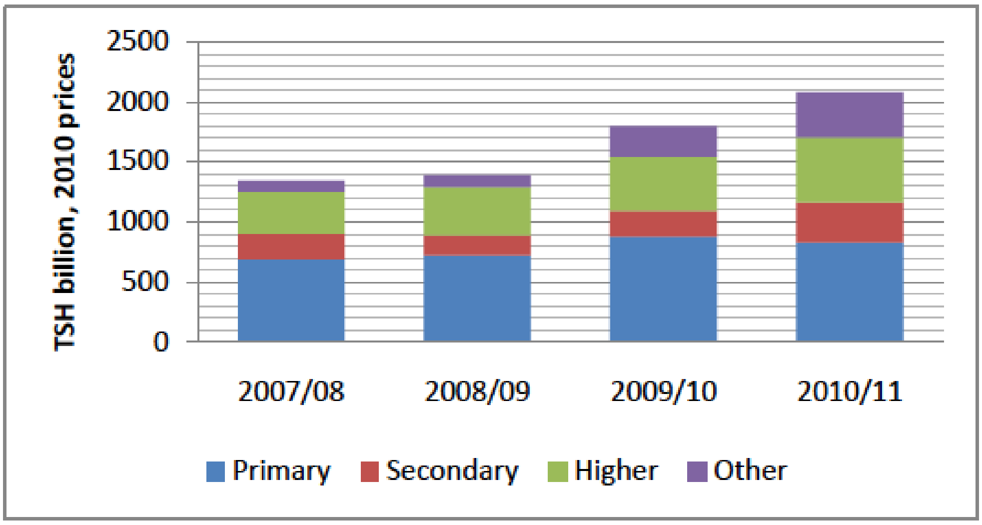
259. These policies were supported by the development of programmes, which guided education sector activities. The Primary Education Development Programme, 2002-2006 (PEDP I) re-introduced free primary education, compensating for the elimination of school fees through the introduction of a capitation grant for schools, for which funding was continued under PEDP II (2007-2011). SEDP I (2004 – 2009) focused on improving access by expanding the number of secondary schools. SEDP II (2010 – 2014) was designed to increase the quality of education, particularly in underserved rural areas, by providing adequate financing to schools, upgrading facilities and improving the provision of teachers and the quality of teaching.

260. These initiatives have been supported by Tanzania's DPs, who have provided additional funding and technical expertise. PEDP I was originally supported by basket funding from DPs but in 2005-2006, there was an integration of the education sector with GBS mechanisms. This led to a move away from basket funding towards external funding through GBS and SBS arrangements (funded by the EU, the Netherlands, CIDA and most recently DFID: see Table 1, Chapter 1), although project funding also continued – for example, SEDP I and II have been funded through World Bank project loans and grants. More recently there has been an interest in expanding SBS support to the sector, and in piloting results based/cash on delivery mechanisms for determining disbursements.

261. DPs have also supported capacity building initiatives, although most have these have been aimed at building capacity within CSOs, with support to TenMet, HakiElimu and Uwezo. There has been no direct technical assistance support to government ministries or education sector institutions, although there has been support by Sida and the World Bank to improving science, mathematics and English teaching in Secondary schools.

Education Sector Outputs

Figure 31: Public spending by Education sub-sector, 2007/08 – 2010/11; constant prices



Source: World Bank, Public Expenditure Review, 2011

262. Figure 31 illustrates the strong growth in education funding. It shows that in terms of sub-sectors, the higher education sector has experienced the fastest growing share of the education sector budget, although both primary and secondary school subsectors have grown in real terms. As a result, **Tanzania is now one of the few Sub-Saharan countries which is close to universal primary education, with improvements experienced in access at all levels of education**:

- Enrolment in primary schools doubled over the decade, with a Gross Enrollment Rate (GER) at primary level of 102.3% in 2011 and 98.4% in 2012, while the Net Enrollment Rate (NER) was 94% in 2011 and 92% in 2012 (ESPR, 2011/2012).
- The transition rate from primary to secondary education has more than doubled from 20.2% in 2006 to 53.6% in 2012. The GER rose from 9.4% in 2005 to 36.9% in 2012.
- The number of university students has risen from 45,500 in 2005/6 to 139,600 in 2010/11.
- Gender parity in enrolment has been achieved at primary level (but not at other levels)

263. During the early 2000s there were very substantial increases in primary school enrolment levels, linked to universal primary education policies, but more recently for primary school, both the GER and the NER, although still high, are showing a decreasing trend. Total primary school pupils rose from the early 2000s until 2007, but since then enrolment rates have began to decline. On

the other hand, the rise in numbers entering primary school and passing PSLE exams, has led to secondary school enrolment increasing significantly, with an annual growth rate of 31% per year between 2005 and 2010 (PER 2011) which continues to rise.

264. **Gender parity has been achieved at primary school level** and since 2009 girls' enrolment has been stable at around 50% and girls pass rates have also risen. At the same time, both girls and boys enrolment has increased at secondary school level, but the number of girls is still lower than boys. This is illustrated by the gender parity index, which decreases from 1.04 (girls' enrolment is greater than boys) in primary school to 0.65 at the higher/tertiary level (ESA 2011).

265. Gender parity is not occurring at secondary school level, as female students are less likely to pass the Primary School Leaving Examination (PSLE) or Certificate of Secondary Education Examination (CSEE) that are necessary to enter public secondary schools. Other factors are the lack of proximity to secondary schools, which dissuades parents from sending their daughters to school due to security concerns. Pregnancies and early marriages can also increase the probability of early female dropout, while cultural factors that put less emphasis on education for girls also contribute.

266. **Tanzania has experienced shortages of teachers at both primary and secondary level, but Pupil:Teacher ratios have been improving over most of the evaluation period** . In 2000, the mean Pupil: Teacher Ratio (PTR) for government schools was 41, rising to 59 in 2004 before declining again to 55 by 2008 and 47 by 2011, reflecting the progress made in addressing the shortage of teachers.

267. **There has also been progress made in narrowing inter-district disparities in teacher allocations but there remain major inequalities.** (Table 26.) The disparities are mainly explained by variations in PTR between rural and urban areas. For example, in the districts visited by the evaluation team, in 2011 the mean PTR in Mkinga, a rural area, was 48.5, whereas in Morogoro Urban it was 27.3, reflecting teacher preferences for posts in urban areas, (due to better housing and living conditions, and employment opportunities for spouses), and the problem of teacher retention in rural areas, as teachers often leave after a short period of time. At secondary level, staff shortages are subject specific, in areas such as sciences and mathematics.

268. **Preliminary evidence suggests that government efforts to deploy more teachers to underserved rural areas are having a positive impact.** (Education Sector Review 2012) The Government has attempted to deploy more teachers in underserved rural areas, through the allocation of funds to districts to transfer teachers from urban to rural areas. This has occurred in Morogoro Urban where funds received in 2010/2011 had been used to transfer teachers.

Table 26 Primary Pupils per Teacher, by District, 2008 & 2011

	Pupils per teacher 2008	Pupils per teacher 2011	Percentage change (2008-2011)
ALL DISTRICTS			
Mean	54.9	47.5	-13.5%
Median	55.2	47.9	-13.2%
Standard deviation	15.0	8.00	-46.8%
Average of the lowest decile	33.8	30.0	-11.2%
Average of the highest decile	80.4	62.0	-22.9%
MKINGA	63.8	48.5	-24.0%
MOROGORO URBAN	31.7	27.3	-13.9%

Source: MoEVT, BEST

269. **There was also evidence from the fieldwork of innovative local level responses to some of the challenges that the education sector is facing**. In Mkinga, mobile science teachers travelled between different secondary schools on motorbikes to resolve the problem of a shortage of science teachers at secondary level. Some of the schools visited were providing incentives for teachers to raise their performance based on results, while others were providing additional free tuition for pupils. In Morogoro Urban, many of the teachers transferred chose to move to Morogoro Rural district, (which comprises a large rural area surrounding Morogoro town), and were assisted in purchasing scooters and motorbikes, so as to avoid having to find new housing.

Education Sector Outcomes

270. **The scale of expansion of the primary and secondary systems has affected quality with negative effects on average pass rates, although the aggregate number of secondary school pupils passing exams has been increasing throughout the evaluation period, and more recently pass rates at primary level have begun to rise again.** Initially, primary exam performance improved in the early 2000s with the numbers of children completing school and passing exams rising significantly to 70.5% in 2006. Since then, this positive trend has reversed with pass rates falling at both primary and secondary level, but in primary by 2011 pass rates have now surpassed 2007 levels. Key trends are as follows:

- In 2007, 54.2% of pupils passed the PSLE, falling to 49.4% in 2009, although the pass rate has improved with 53.5% and 58% passing in 2010 and 2011(PER 2011 and ESDP 2012).
- At secondary level, pass rates remain very low. In 2011, 10% of pupils passed the Certificate of Secondary Education Examination, a fall from 11.6% in 2010.
- CSEE Pass rates vary considerably according to type of school. In 2011, it was 41.2% for

seminaries, 35.1% for government schools, 19.5 % for non-government schools and only 6% for community schools. (Ministry of Education and Vocational Training (MoEVT), 2011).

- With the numbers of secondary school pupils rising at over 30% per year throughout the evaluation period, the aggregate number of secondary school passes has been increasing despite these low rates.

271. In part, the fall in average pass rates is a direct consequence of extending coverage to previously disadvantaged groups. Many of the new entrants into secondary schools represent the first generation of their families, who have ever had access to this level of education, and the level of parental education is in Tanzania (as in most of the world) a principal determinant of education outcomes, as our econometric analysis reported below confirms. On the other hand, parental educational levels are less important at the primary level: here, GoT efforts to increase the PTR, particularly in rural and underserved areas are a primary causal factor in the recent increase in pass rates at primary level. (See summary of econometric analysis below.)

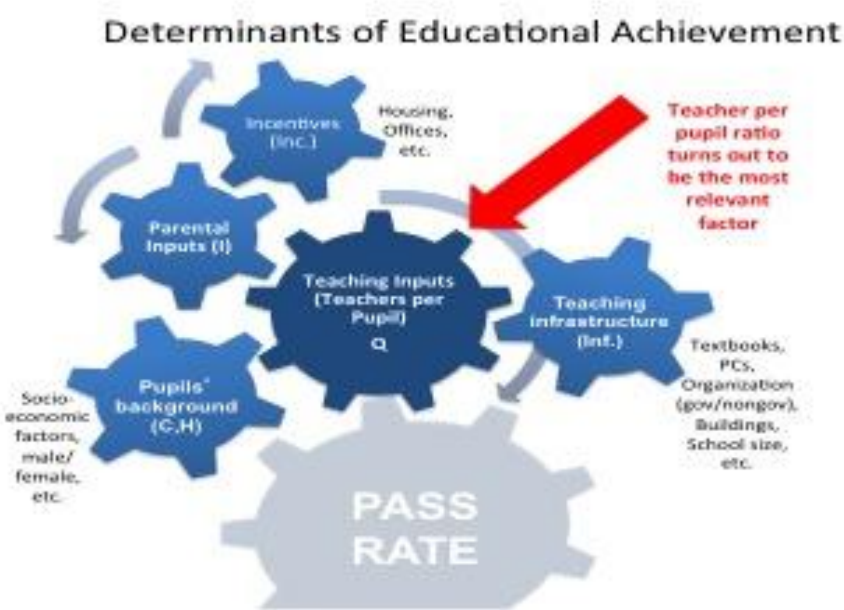
272. **There are signs that system expansion is straining the limits of financial and human resources, and that this is impacting upon quality**. Not only has it proven difficult to generate an adequate level of trained primary and secondary teachers and to ensure their balanced deployment across rural and urban areas, the level of capitation grants disbursed to primary schools, to cover requirements for non-salary inputs, has also fallen from Tsh 5,411 per pupil in 2007/2008 to Ths 2,172 in 2011/2012. For secondary schools the full capitation grant of Tsh 25,000 per pupil was paid in 2010/2011, but this fell to Tsh 21,335, in 2011-12.

Factors influencing performance in the education sector

273. As part of the evaluation, a detailed econometric analysis was undertaken of the relationship between "outputs" and the outcomes in terms of educational achievement. Annex seven provides a detailed presentation of the approach, of the econometric results and of the conclusions. Here, we present a short summary of the analysis and the resulting conclusions.

274. The objective of the econometric analysis was to create a framework to analyse the major determinants of educational achievements at the primary and secondary levels in Tanzania. Drawing upon well-established literature on education provision, we defined a production function for educational achievement as illustrated in Figure 32 below.

Figure 32: Overview of the econometric model used to identify the primary determinants of educational achievement at Primary and Secondary levels



275. Educational achievements (A) are defined as a function of "Q" the teaching inputs (provided by the government for the public education system), "C" the innate characteristics of pupils and "H" the household characteristics of the pupils (in terms of household size, wealth and education level of parents), as well as two factors which will directly influence the effectiveness of teaching inputs, namely "Inc" – teacher incentives (in the form of housing and office space provided for teachers) – and "Inf" – the infrastructural conditions within which teaching inputs are delivered, measured via the number of text-books per pupil, personal computers per teacher, the type of school (organisational status/ ownership) and the size of the schools.

$$A = f\,[Q, Inc, Inf, C, H]$$

276. The model also recognises an additional factor, "I" - the parental schooling inputs, such as support to ensure regular attendance and completion of home work, financing of transport to school, school uniforms, school materials and potentially school fees/ contributions. In the absence of any data source on "I", this has been subsumed within the error term. Data on teachers and pupils, as well as infrastructural and incentive factors has been provided through the administrative data collected and compiled by MoEVT (Basic Education Statistics for Tanzania) covering the years 2008 and 2011, while estimates of household characteristics have been generated from the 2010 Demographic & Health Survey.

277. Pupils' educational achievements are difficult to assess, especially because the literature suggests that across many countries, children seem to learn – systematically – much less than the curriculum states they should learn, and that by implication the ability to pass an exam (which should measure whether the curriculum has been learned or not) may not be an accurate indicator of achievement. (Lockheed & Verspoor, 1991; Hanushek, 1995; Glewwe, 1999.) However, comparison of educational outcomes across districts requires comparable and

statistically representative data on educational achievements. The only source of such data is NECTA (National Examination Council of Tanzania), who administer the PSLE and the CSEE.

278. The indicator selected to assess teaching inputs ("Q") has been the number of teachers per enrolled pupil. In using this as a proxy for teaching inputs, we make a series of (quite strong) assumptions, which unfortunately are difficult to test or correct for:

- The numbers of teachers and enrolled pupils remain constant across the entire year;
- Teachers deliver the same number of teaching hours across all districts;
- The absenteeism rate (both for teachers and pupils) is homogenous across all districts.

279. **Econometric findings[64] reveal that, at primary level, educational achievement and to a lesser extent gender differentials in achievement, are highly correlated with the PTR.** Other factors have much less importance at the primary level, including factors releated to the educational status and wealth of the households in a district. The presence of a non-government school in the district is another relevant factor, as these schools consistently achieve higher pass marks than government schools. However, the key policy implication at the primary level is that reducing PTRs in every district must be the primary goal (addressing the problem of inter-district disparities, as well as reducing the national average.)

280. **At the secondary level, PTRs also positively affect educational achievement but other factors play a more significant role at this level.** Specifically, we note that in the secondary education sector educational achievement is not monotonically increasing at differential levels of PTR – in contrast with the primary education sector where the increase is clear and statistically significant. This shows that the impact of the PTR is less clear and straightforward in the secondary education sector. Moreover, levels of education and wealth (measured within the district) affect educational achievements at the secondary level much more than at the primary level.

64 Summary finidngs from the econometric analysis are presented below in Figures 33 and 34. The references to table numbers (e.g., "Table A.22") refer to the tables included in Annex Seven, Volume Two.

Figure 33: Summary of econometric analysis of Primary Education outcomes

- Educational achievement – as measured by PSLE pass-rates – is very significantly affected by the teacher per pupil ratio. The smaller the classes under the supervision of a teacher, the better children perform. (Table A.2 in Annex VII)

- The higher the percentage of non-governmental schools within a district the higher the average education achievement level. (Table A.2) However it should be stressed that apparently the districts characterized by a higher percentage of governmental schools do perform better in terms of gender equality. (Table A.4)

- In districts characterized by a higher level of education (as measured by the average level of education of adults within the district), we observe a significantly higher educational achievement level. (Table A.2) A quantile analysis reveals that this generalized finding is actually driven by the very strong positive relationship between children's educational achievements and adults' education levels when classes are (very) large. In other subsamples the level of education of adults does not seem to affect children's overall educational achievements. (Table A.3)

- Wealth and household size (controlling for adults' level of education) do not seem to affect significantly children's educational achievements. (Table A.2) However we observe that wealth and educational achievements are positively related at the extremes in terms of class size (very high and very low teacher per pupil ratios) as well as when the education level of adults is very low. (Table A.3)

- The most relevant variable in terms of teacher incentives turns out to be teacher offices per teacher. However surprisingly, the higher the amount of available offices per teacher the lower the level of educational achievements at the district level. Most puzzling is the fact that this is particularly striking in so-called highly educated and wealthy districts. (Table A.3)

- Gender differentials in terms of educational achievement tend to significantly decrease when the teacher per pupil ratio increases but tend to significantly increase in districts where households are on average wealthier and (other things remaining equal) larger. (Table A.4) An increase in teachers across years has moreover been documented to be significantly positively related to a decrease in gender differentials across the 2008-2011period.

Figure 34: Summary of econometric analysis of Secondary Education outcomes

- In the secondary sector educational achievements – as measured by Ordinary Level pass-rates – are significantly positively affected by the teacher per pupil ratio. The smaller the classes under the supervision of a teacher, the better children perform. (Table A.22) It should be stressed that the positive impact of teachers on children's educational achievements is not verified in schools located in very wealthy districts. (Table A.23) Strikingly, districts in which the teacher per pupil ratio has increased more perform worse than before when comparing 2008 and 2011. (Table A.25)

- In schools located in districts characterized by a higher level of education (as measured by the average level of education of adults within the district) we observe a significantly higher educational achievement level. Controlling for district level performance in terms of adults' education level, the higher the level of wealth the higher the probability that the school's average pass rate will be above average. (Table A.22)

- Schools located in districts characterized by larger households (at the same level of education and wealth) seem to perform better. (Table A.22) This is particularly significant in poorer districts. (Table A.23)

- In terms of teacher incentives, at first sight teacher houses do not seem to affect teachers' motivation and hence children's educational outcomes. (Table A.22) However the quantile regression analysis reveals (i) that teacher houses do have a strong significantly positive impact on final educational achievements in schools located in wealthy districts (in terms of average household wealth) and (ii) that there is a 'snowball' effect between class size and teacher incentives (measured by teacher houses). Thus, the positive impact of the incentive is magnified when increasing the level of teacher per pupil ratio. (Table 3)

- Gender differentials in terms of educational achievement are larger in schools that perform worse. Gender differentials tend to significantly decrease when the teacher per pupil increases and are significantly smaller in schools located in highly educated and wealthier districts (measured by average household adults' level of education and average household wealth). This empirical finding is verified both for top pass rates and total pass rates. (Table A.24)

- Bizarely, findings suggest that the number of textbooks per pupil has no apparent impact on the level of educational achievement. (Table A.22) However they seem to have a positive effect in very small and very large classes. (Table A.23) This may suggest that books have a stronger positive impact if they are either well exploited in a suitable education setting (very high teacher per pupil ratio) or if they turn out to be a substitute for missing teachers (very low teacher per pupil ratio) but our findings on textbooks are vulnerable to methodological difficulties, and would need further analysis.

Explaining education results in the light of Step One findings

281.**Government policy towards education has had a positive impact on educational outcomes, through increasing access and resources to education and improving teacher pupil ratios.** The emphasis on "Education For All" combined with increased resources and the abolition of school fees has led to increasing numbers of children enrolling at both primary and secondary school and passing the PSLE and CSSE examinations. This is a positive trend, although the main caveat is that average pass rates have fallen for most of the period examined, which raises concerns regarding the overall quality of education. There are also wide disparities in educational attainment between regions. Nonetheless, there are still more children passing exams at both levels, as the number of children in education has dramatically increased.

282.**The recent rise in pass rates at primary level, which now surpass 2007 levels, may also be a result of policies established by the GoT to increase pupil teacher ratios.** These have recently fallen, while progress has been made in narrowing inter-district disparities in teacher allocations by deploying more teachers in underserved rural areas. The econometric results confirm a very strong correlation between high PTRs and PSLE pass rates.

283.**Gender equality has been achieved at primary level, which the econometric analysis indicates is linked to increased resources and access to education, and correlated with higher teacher: pupil ratios.** At secondary level the participation of girls has also increased and the policy of building of more secondary schools by the GoT may well have contributed to this, as the econometric analysis indicates that districts characterised by a higher percentage of governmental schools perform better in terms of gender equality. This is probably due to greater proximity of schools to girls' homes which means parents are more likely to send them to school, as they have less concerns over security.

284.**Funding through Budget Support has played a key role in financing the expansion of the education sector**. The expanded levels of provision could not have been financed in the absence of GBS, without major budget re-allocations or unsustainable levels of borrowing. Funding through SBS, Common Basket funding and projects has also contributed, but to a lesser extent. As a consequence, access to primary and, more especially secondary education has increased dramatically. While examination pass rates have fallen for both levels over the evaluation period as a whole, there are indications in the most recent years of a recovery in pass rates at the primary level, and also evidence of a narrowing of inter-district disparities in provision.

285.**There is little evidence of a significant impact of GBS or SBS dialogue on education policy.** Stakeholders agree that inclusion in the PAF can generate extra pressure for specific policy targets to be met. For example, a TPA was included in the 2011 PAF related to levels of secondary school capitation grants, which stakeholders agree would have assisted in ensuring that in the first year (2010/2011) the full amount of Tsh 25,000 per pupil was disbursed to schools. However, in general, policy dialogue is reported to be difficult, due to complicated structures for dialogue, a lack of clarity on the mandates of different fora and the fact that education dialogue is not directly linked to GBS dialogue. There is also a view that the inclusion of outcome indicators in the PAF leads to a narrow, technical discussion focused on achievement of indicators, rather than on more strategic issues. While it is too early to reach a definitive judgement, the evaluation team found no evidence that the shift towards a higher level of SBS funding since 2007/08 had made a positive difference to the effectiveness of policy dialogue in the sector.

5. Conclusions and Recommendations

286. This concluding chapter serves three purposes. It presents a summary of the conclusions from Step One and Step Two of the analysis. It draws out the aggregate implications through the analysis of Step Three, and it presents a set of recommendations for the future.

5.1. Overall findings

287. This study has evaluated all of the General and Sector Budget Support operations undertaken in Tanzania from 2005/06 to 2011/12. These operations amount to a resource transfer of just fewer than 5,000 million US dollars - an annual average disbursement of US $ 694 million, some $16 per annum per head of the Tanzanian population, provided by 14 Development Partners. In evaluating these operations, our study has addressed three questions:

i. How successful have GBS and SBS been in providing the means to the Government of Tanzania to implement its national and sectoral strategies? (EQ. 1.1-2.3)

ii. How successful have GBS and SBS been in facilitating improvements in the efficiency and effectiveness of these national and sectoral strategies? (EQ. 3.1 – 3.5)

iii. As a consequence, how successful have GBS and SBS been in attaining successful outcomes and impacts on growth and poverty reduction? (EQ. 4.1 & 4.2.)

Providing the means to implement Government policy (EQ. 1.1-2.3)

288. **In relation to financial inputs, Budget Support inputs have been important and efficiently delivered**. Disbursements during the 7-year evaluation period were substantial both in fiscal terms – where they represented on average 14 % of public spending, and as a proportion of total ODA, where they comprised an average of 37 %. Moreover, they provided a predictable source of annual funding, with disbursements generally in excess of the amounts projected by the BSG members at the conclusion of the annual review process. In terms of the timeliness of within-year disbursements, first quarter disbursements were frequently lower than planned but the movement of Treasury Bill rates does not suggest that these late disbursements generated significant borrowing costs for government.

289. **Budget Support is not, however, exerting a wider influence on the overall effectiveness of aid**. There has been a modest decline in the proportion of ODA accounted for by Budget Support, to 32 per cent in 2011/12, and there is no clear evidence of other modalities

making increasing use of the national budget and PFM system. The overall predictability of ODA (on an annual basis) has remained broadly constant over the evaluation period but largely as a result of the improved (annual) predictability of Budget Support. In terms of aggregate transaction costs, the evidence is poor but the perception of stakeholders is that transaction costs for Budget Support have risen (due to a problematic policy dialogue), while remaining broadly constant for other modalities.

290. **The Budget Support process has succeeded in creating a functional harmonised framework for the annual assessment of progress and for a related policy dialogue but the quality of dialogue is undermined by significant weaknesses**. Specifically, the process is characterised by a low level of government ownership, high transaction costs, technical weaknesses in PAF indicators, and the lack of a strategic, policy-solving orientation.

291. **In the limited cases where Budget Support operations include provisions for capacity building, they have tended to under-disburse because of the lack of demand for such support from Government.** This lack of demand is largely driven by a negative perception of past capacity building, and by a distrust of externally financed TA. However, there are capacity gaps in policy formulation as well as reform design and implementation: addressing these gaps would enhance the effectiveness of the Budget, and therefore of Budget Support.

292. **We conclude that there were deficiencies in the relevance of the initial Budget Support "package", which were exacerbated rather than improved through the changes made after 2007.** The 2005 Budget Support evaluation showed that there were policy and institutional problems present in 2005, which were likely to reduce the effectiveness of the Government's poverty reduction strategy and the ability of the Government to achieve fast implementation of PFM and other reforms. Yet, the Budget Support package was largely limited to financial resources, with inadequate attention to the additional inputs, which might have helped to address these policy and institutional problems. Capacity building inputs, provided through or in conjunction with Budget Support, were very limited. The nature of policy dialogue was focused excessively on disbursement indicators and was never truly geared to constructive, problem-solving policy dialogue. Moreover, its structure required DPs to combine the roles of "auditors" and "partners in dialogue", which inevitably undermined the quality of exchanges on policy issues.

Facilitating improvements in Government policies (EQ 3.1-3.5)

293. **The management of fiscal and macroeconomic policy has been of high quality:**

- Domestic revenue mobilisation increased by 5 percentage points of GDP over the evaluation period, out-performing Uganda and narrowing the gap with respect to Kenya.
- Total spending increased by 3 percentage points of GDP over the period, as a consequence of expanded development spending.
- Recurrent expenditure fell to 17% of GDP in 2011/12, a level that could be more than sustained by domestic revenues alone.

- The fiscal deficit fluctuated in response to the global financial crisis, returning to a more sustainable level again in 2011/12.
- GDP growth has remained buoyant at 6-7% per annum, and although inflation rose sharply over 2010 and 2011, it is projected to return to single digits by end 2012/13.

294. This is a strong performance on macroeconomic management and particularly so in the light of the additional pressures generated by the global financial crisis and the prolonged domestic drought. **There is evidence that Budget Support funding contributed significantly to these achievements, without introducing substantive negative side effects.**

295. **With regard to Public Finance Management**, we have concluded as follows:

- Firstly, a programme of PFM reform has been in place throughout the evaluation period, to which the Government has shown a clear commitment;
- Secondly, according to the PEFA assessments of 2006 and 2009 and other documentation available, improvements have been achieved in revenue administration, in procurement systems as well as in internal and external audit but significant weaknesses persist in the core functions of budget formulation, budget execution and financial reporting, as well as in the monitoring and control of contingent liabilities.
- Thirdly, the current PFM reform programme, PFMRP IV, presents a coherent programme of reforms linked to results but it does not adequately address the continuing weaknesses in these core functions and it does not give adequate urgency to the task of strengthening the monitoring and control of contingent liabilities.

296. **Stakeholders from Government and from the BSG agree that in the absence of Budget Support the same level of consistent Government commitment to PFM reform would not have been achieved.** The fact that this commitment to reform has not achieved more substantial and widespread improvements to the PFM system may be partly attributed to the difficulties of implementing "second generation" reforms, in a context of relatively weak human resource capacities and institutional structures. Yet, there have also been design problems, notable in the lack of attention in PFMRP IV to weaknesses in core functions.

297. **It is notable that the Budget Support dialogue has not generated a fully relevant programme of reforms, focused on the most significant weaknesses in the PFM system.** This may be attributed to the conflictive nature of dialogue, which affected discussions on PFM reform strategy and implementation over 2008 to 2010, and which probably discouraged Government from seeking appropriate technical assistance to address the continuing weaknesses in core functions, despite the recommendations of the 2009 PEFA. The need to re-establish trust in more recent years seems also to have discouraged DP staff involved in the PFM process from broaching sensitive issues with their GoT counterparts, thus allowing significant problems to remain unaddressed within the current reform programme, PFMRP IV.

298. **In terms of the economic and sectoral composition of spending, there is evidence**

that Budget Support funding facilitated several important changes:

- For most of the evaluation period, it is Budget Support, which has permitted non-salary recurrent spending to be fully financed, alongside expanding levels of domestically financed development spending, and domestic expenditures on teachers' salaries. In its absence, domestic revenue would only have been sufficient to cover interest payments, salaries and a proportion of non-salary recurrent spending, which would have compelled cuts in development spending, in non-salary allocations and/ or in the expansion of teacher numbers.
- Total spending on the 6 priority sectors designated in MKUKUTA (agriculture, education, energy, health, roads and water) has more than doubled in nominal terms over the evaluation period, increasing by 5 percentage points of GDP. As a percentage of total expenditure, these six priority sectors have increased their share from 40 % to just over 50% of total spending.

299. **The major contribution of GBS funding has been to support the expansion of public spending in the education and roads sectors,** alongside a more minor contribution from the SBS arrangements in these sectors. We draw this conclusion from an analysis of trends in funding sources and sector expenditure shares, making some assumptions that reflect the processes of budgetary negotiation and decision-making in Tanzania.

300. **With regard to governance and accountability, there is evidence of improvements over the period of the evaluation:**

- The National Audit Office (NAO) has improved the scope, timeliness and quality of audit reports of both MDAs and LGAs.
- The Parliament has significantly strengthened its oversight role. This has in particular been through the Public Accounts Committees (PACs).
- CSOs and the media have also become more active on corruption issues and in reporting on budgetary and financial management questions.
- The Tanzania Prevention and Combating of Corruption Act was passed in 2007, strengthening the powers of the PCCB. The PCCB has significantly increased the scale of its operations and PCCB statistics show improvement in key performance indicators.

301. **The high level dialogue on corruption- led by the Troika-plus members of the BSG - was launched during the evaluation period.** This has created an avenue for communication between Government and DPs, through which the Government now provides information on progress in anti-corruption efforts, which had not been provided in the past. In the light of the tensions in policy dialogue present up to 2010, more time will be needed for trust to be fully re-established but several stakeholders were optimistic that this forum could provide a basis in future for constructive review and strengthening of anti-corruption work.

302. **There is strong evidence that the combination of GBS funding through the budget**

with targeted support to institutions of accountability such as the NAO, the Parliament, CSOs, media and LGAs has created more transparency. Targeted project support to the institutions of accountability has been fundamental to this achievement but Budget Support inputs have also been important. This is therefore an area where complementarities between Budget Support and other modalities have been strongly positive.

303. **Regarding public administration systems for local service delivery, the Government has in several ways sought to improve quality, during the evaluation period.** The level of funding of LGAs for local service delivery has increased dramatically, although the reliability and timeliness of LGA transfers has been a challenge. Development transfers for LGAs are now largely managed through a formula based Local Government Development Grant, although efforts to introduce a formula based allocation for the recurrent budget have been abandoned. Government has given preference to disadvantaged LGAs in the assignment of staff although only minor elements of schemes for staff retention have been supported.

304. **Overall, the influence of Budget Support dialogue on the improvements in service delivery processes at local government level has been modest**. The availability of increased funding was important but the innovations introduced for LGA financing (notably the LGDG scheme), the improvements in reporting and the broader development of capacities were driven by the Local Government Reform Programme, which was supported by DPs through projects and a Common Basket Fund. The conflictive nature of Budget Support dialogue on local government reform issues (with repeated arguments over the desirability of formula-based recurrent funding) may even have slowed down the progress, which could have been achieved.

Attaining sustainable outcomes and impacts (EQ. 4.1 and 4.2)

305. **Tanzania has experienced, over the past decade, some of the highest growth rates in Sub-Saharan Africa.** It has broken out of the cycle of short-lived accelerations in growth that has characterised many low-income countries, enjoying strong uninterrupted growth since the mid-1990s. Real GDP growth has increased substantially from below 4% in the early 1990s to an annual average of around 7% during the 2000s. The MKUKUTA I target of average annual GDP growth of between 6% and 8% by 2010 has therefore been achieved.

306. **Budget Support funds have enabled the government to increase development spending without recourse to domestic borrowing, which supported private sector investment in three ways.** Firstly, Budget Support funds facilitated an expansion in domestically financed development spending from 1.8 % of GDP in 2005/06 to 4.6 % in 2011/12. A significant portion of the incremental development spending was dedicated to the roads sector, helping to address the infrastructure constraints on private sector growth. Secondly, by avoiding recourse to borrowing, the Government restrained its demands on the domestic banking sector and facilitated the rapid increase in the ratio of private sector credit to GDP. Thirdly, by helping to keep the fiscal deficit within sustainable limits, Budget Support funds contributed to the macroeconomic stability, which has encouraged growth in FDI inflows.

307. **The pace of reforms to the outstanding business environment constraints has slowed and there is less evidence of a positive impact of GBS dialogue on pro-growth policies since 2007**. The evidence suggests that the policy determinants of Tanzania's recent growth acceleration lay in policy reforms (restoration of macroeconomic stability, privatisation, trade reform, financial sector liberalisation, and fiscal consolidation), which took place prior to the evaluation period. Tanzania's overall ranking in the World Bank's Doing Business Indicators improved from 142 to 124 from 2007 to 2008, but has not since improved further. In part, this is due to the institutional difficulties of implementing Doing Business reforms involving cross-government actions. Yet, there is also evidence that the weakness of the processes of dialogue under Budget Support undermined the progress in policy reform that might have been made during the evaluation period.

308. **In relation to poverty outcomes, the 2007 Household Budget Survey (HBS) estimated that the proportion of people living in poverty decreased from 35.6% of the population in 2001 to 33.3% in 2007.** This estimated reduction in the poverty ratio would not have compensated for the population growth rate of about 2.0% per year. (HDR, 2011) However, the estimated decline in the poverty rate is within the boundaries of statistical error: it is possible that the reduction in income poverty was in fact twice the reported amount but also that there was no income poverty reduction in Tanzania over the period. In short, data points to either stagnation or a modest fall in income poverty rates over 2001 to 2007.

309. **The scope of influence of a Budget Support policy dialogue focused on poverty reduction has been weakened by the virtual exclusion of agricultural policy issues.** Given that the key policy-related explanation for the weak poverty elasticity of growth in Tanzania relates to agriculture, and that the majority of the extreme poor in Tanzania live in rural areas, this is a serious limitation of the budget support dialogue process.

310. **Whilst income poverty has not declined significantly, non-income measures of poverty have shown improvements:**

- From 2000 to 2011, Tanzania's Human Development Index increased from 0.364 to 0.466 (HDR, 2011), shifting form significantly below the SSA average to slightly above it. There were particularly strong achievements in education and health.
- The 2000/1 and 2007 Household Budget Surveys (HBS) show improvements in some indications of welfare (education and ownership of assets).
- Since 2003, HIV prevalence in adults (15-49 years) has declined in both males and females, across most age groups.
- The incidence of malaria, which has accounted for the largest burden of morbidity and mortality in Tanzania, especially among young children, has substantially improved with the introduction of insecticide-treated nets.
- There has been progress in the reduction of under five and infant (under one year)

mortality and Tanzania is now on track to meet MDG4.

311. **Education was designated as a 'priority sector' in MKUKUTA and has throughout the evaluation period commanded the highest share of the national budget.** As a result, Tanzania is now one of the few Sub-Saharan countries which is close to universal primary education, with improvements experienced in access at all levels of education:

- Enrolment in primary schools doubled over the decade.
- The transition rate from primary to secondary education has more than doubled from 20.2% in 2006 to 53.6% in 2012.
- The number of university students has risen from 45,500 in 2005/6 to 139,600 in 2010/11.
- Gender parity in enrolment has been achieved at primary level.

312. **Enrolment growth has been accompanied by a fall in average pass rates at secondary but the absolute numbers of children passing exams has still increased**. Pass rates at secondary level fell to 10 % in 2011, an indication of the difficulties of maintaining efficiency in a context of significantly increased pupil numbers and extension of coverage to disadvantaged groups, with low parental levels of education. Nevertheless, absolute numbers of passes continued to increase, as did the proportion of the secondary school age group passing the CSEE.

313. **At primary level, pupil: teacher ratios are again falling and inter-district disparities being reduced with a positive effect on pass rates in 2011 and 2012**. The numbers of children completing school and passing primary exams rose significantly to 70.5% in 2006. This positive trend was reversed with pass rates falling, before again increasing at primary in 2011 and 2012. The improvement in the average PTR from 54.9:1 in 2008 to 47.5 in 2011 was instrumental in achieving this result, especially because the standard deviation in the PTR also halved.

314. Econometric findings reveal that, at primary level, educational achievement and to lesser extent gender differentials in achievement, are highly correlated with the teacher per pupil ratio. Other factors have much less importance, including factors related to the educational status and wealth of the households in a district. The key policy implication is that reducing PTRs in every district must be the primary goal, addressing both the problem of inter-district disparities, and reducing the national average.

315. At the secondary level, pupil teacher ratios also positively affect educational achievement but other factors play a more significant role at this level. Specifically, the impact of the teacher per pupil ratio is less clear and straightforward in the secondary education sector. Moreover, levels of education and wealth affect educational achievements at the secondary level much more than at the primary level. Thus, policy responses to the low pass rates at the secondary level would need to be more varied and "multi-pronged" than for the primary level, giving greater attention to institutional factors and to the household characteristics of pupils.

316. **Funding through Budget Support has played a key role in funding the expansion of the education sector.** The expanded levels of provision could not have been financed in the absence of General Budget Support. Funding through SBS, Common basket funding and projects has also contributed, but to a lesser extent.

5.2. Step Three: Conclusions on Impact of Budget Support

317. What do the findings from Step One and Step Two, summarised above tell us about the overall impact of Budget support over the evaluation period? In order to address this question, we have constructed a matrix (Figure 35) with the following elements:

- It presents on the right-hand side the outcomes and impacts, which we have documented in respect of growth, reductions in income and non-income poverty and improved education sector outcomes.
- In the middle column, it identifies the changes in Government policies and budgetary programmes, which might have been expected to exert a positive influence on final outcomes and impacts.
- In the left-hand column, it identifies the inputs and immediate effects of Budget Support.
- In the two connecting columns it identifies the relative degree of influence, which the evaluation team have identified, defining this as (i) Absent or Negligible; (ii) Weak; (iii) Moderately Important; and (iv) Important.

318. We discuss the conclusions emerging from this matrix and their implications in the text below. A simplified diagrammatic overview of the effects is presented in Figure 36, which should be read together with Figure 35 so as to understand the lines of causality identified.

319. **The primary contribution of Budget support has been in the form of increased funding**. However, the complementary inputs of Budget Support, which might have helped to generate a greater impact, have not functioned effectively. Budget Support has supported the creation of an effective structure for dialogue, based upon the definition of policy targets and a framework of annual monitoring, comprising sector reviews and a national level policy dialogue. However, the operational shortcomings of this framework have meant that it has not served to generate a strategic and problem-focused dialogue. In addition, complementary inputs for technical assistance and capacity building have been very limited and the potential wider effects of Budget Support on aid effectiveness have been noticeably absent.

320. **Notwithstanding these limitations, Budget Support has had an important influence** – through its funding contribution – on macroeconomic management and on the increased allocation of resources to MKUKUTA priority sectors. The fact that PFM reform and improvements in governance, especially the fight against corruption, were systematically discussed and reviewed on an annual basis through the Budget Support dialogue structure is also likely to have been moderately important to the continued progress made in these areas.

321. **Good macroeconomic management, combined with increased allocations to the priority sectors allowed Budget Support to have an important influence on overall growth, on the improved outcomes in the education sector and on improvements on non-income poverty.** These are significant achievements, which add up to a positive overall balance sheet for Budget Support.

322. **Our conclusion is that neither project funding nor common basket funding could have achieved these same results with the same degree of efficiency, effectiveness and sustainability.** In particular, we point to the following factors:

- The funding provided through GBS/ SBS of some US $ 650 million per annum would have been equivalent to some 200 additional project and CBF operations, disbursing $3-5 million each per annum. The additional transaction costs of opting for alternative modalities would therefore have been clearly prohibitive.
- It would have been difficult for GoT to utilise such operations to finance recruitment of additional teachers or to provide non-salary recurrent cost funding.
- If it proved possible to maintain the historical average levels of predictability of disbursements from projects (76%) and of CBF operations (86%), there would need to have been a systematic over-programming of some 20 %, and even with such adjustments the annual volatility of disbursements would have proven problematic[65].
- The sustainability of this incremental funding would have been difficult to ensure, whereas over time Budget Support funding is gradually being replaced with domestic revenue, using exactly the same planning and budgeting procedures and hence ensuring sustainability.
- Finally, while we have concluded that the space for policy dialogue afforded by Budget Support has not been used to its fullest advantage in Tanzania, it has served to generate certain improvements in the design and implementation of policies and strategies[66], which could not have been generated by the more limited spaces for dialogue offered by project and CBF arrangements.

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[65] See the data presented in Figure 3 in Chapter 2. By comparison, actual annual disbursements of Budget Support have been close to 100 % of planned disbursements throughout the evaluation period.

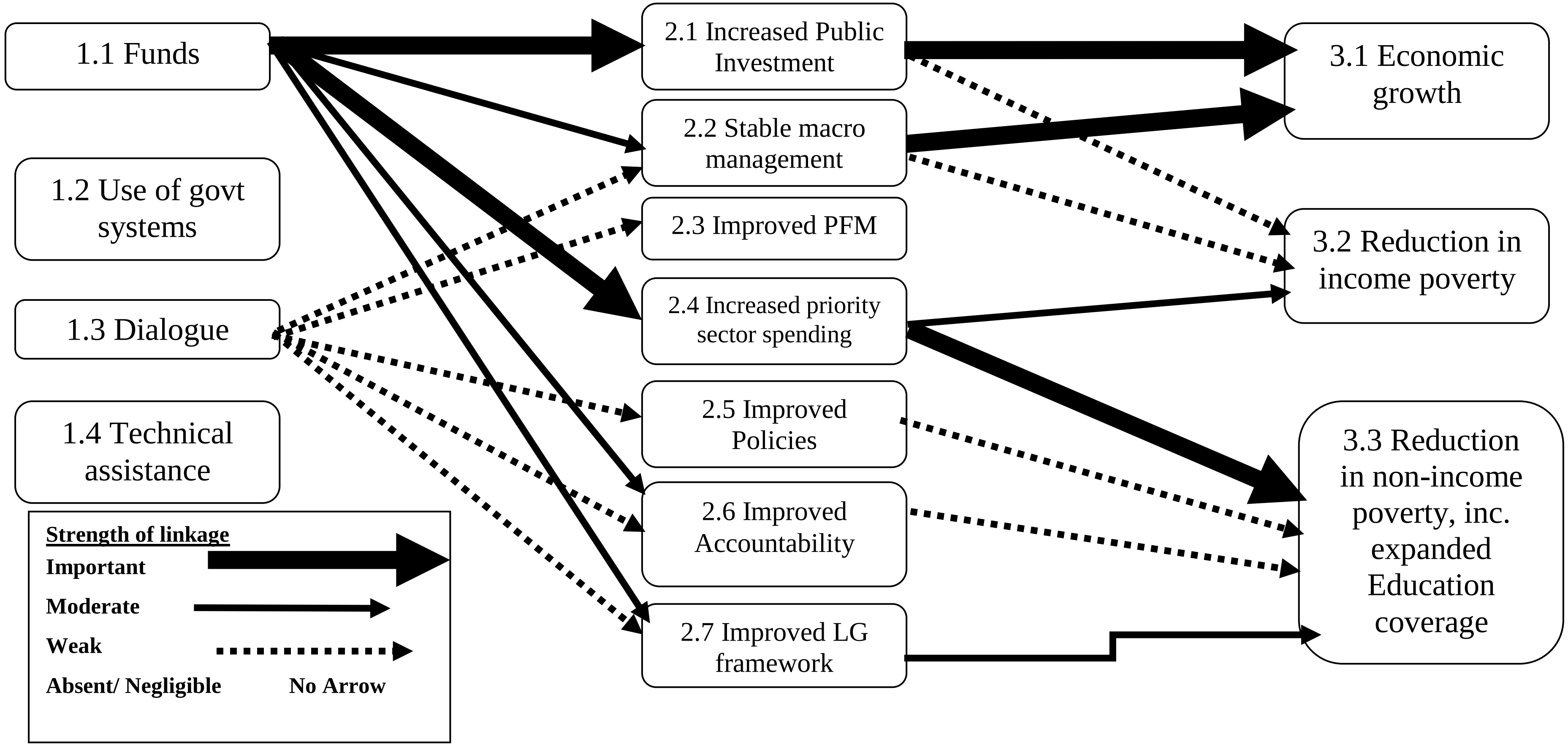
[66] These contributions are examined in chapter 2, section 2.3, which identifies five areas where there is good evidence of the GBS/ SBS policy dialogue process having had a positive influence: (i) the consistent political and administrative commitment to the PFM reform programme; (ii) the consistent support for the Road fund and the related road maintenance arrangements; (iii) the introduction of capitation grants for secondary schools; (iv) the introduction of budget transparency targets regarding publication of key budget documents; (v) the steady strengthening of the accountability and anti-corruption institutions.

Figure 35: Step Three – Summary of analysis of aggregate impact of Budget Support

BUDGET SUPPORT INPUTS & IMMEDIATE EFFECTS	NATURE & DEGREE OF INFLUENCE	GOVERNMENT POLICY CHANGES WITH POTENTIAL INFLUENCE ON OUTCOMES/ IMPACTS	NATURE & DEGREE OF INFLUENCE	KEY IMPACTS & OUTCOMES IDENTIFIED
Budget Support Funds, predictably delivered, for relatively low transaction costs	***Important*** *– disbursements of av. 14 % of public spending have helped fund increased discretionary spending, while supporting a sustainable deficit.*	**Stable Macroeconomic Management & Growth-oriented fiscal policy**	***Important*** *– low domestic borrowing supported credit to private sector; Good macro performance preserved confidence & Investment supported Growth.*	**Steady 6-7 per cent GDP growth per annum**
Increased use of Budgetary process by Aid as a whole	***Negligible*** *– use of country systems has increased marginally.*	**Strengthened PFM system, supporting more efficient expenditure**	***Negligible*** *– PFM system improvements too weak for major efficiency effects*	**Modest falls in income poverty rates: 33.3% reported poor in 2007, 35.6% in 2001.**
Increased Harmonisation & Alignment of Aid	***Absent*** *– improvements in H&A due to JAST not GBS/ SBS*	**Enhanced allocations to MKUKUTA priority sectors**	***Important*** *– allocations to Roads & Education in particular.*	
Framework for Policy Monitoring & Dialogue	***Moderately Important*** *– a harmonised system of target setting and monitoring established.*	**Improved Sector Policies**	***Weak*** *– important policy shortcomings remain*	**Reductions in non-income poverty**
Problem-solving Policy Dialogue between GoT & Budget Support Group	***Weak*** *– Budget Support dialogue has had low ownership, high transaction costs, and a poorly structured PAF*	**Improved Governance & Accountability**	***Weak*** *– transparency has certainly improved but effect on accountability not clear*	**Major Improvements in coverage of Secondary Education, while maintaining Primary enrolment close to universal**
Technical Assistance & Capacity Building	***Negligible*** *– TA and capacity-building support to GoT was very limited*	**Improved structures for service delivery at LGA level.**	***Moderately Important*** *– increased LGA budgets, decentralised Development Budget and improved reporting.*	

Figure 36: Step Three – Diagrammatic overview of aggregate impact of Budget Support in Tanzania

4. Budget Support inputs	Strength of linkage	5. Induced outputs	Strength of linkage	6. Impacts



323. **Notwithstanding the important contributions of Budget Support, it must be noted that the effects of Government spending – and by implication of Budget Support - on reduction of income poverty have been limited.** This reflects weaknesses both in the design of Government policies to address income poverty and in the operation of the Budget Support dialogue, which is intended to contribute to 'enriching the country's strategies' (Partnership Framework Memoranda 2006 & 2011.)

324. Looking forward, it is clear that the Budget Support providers, working with Government, need to find ways of improving the quality of policy dialogue, and of developing more substantial and effective capacity-building initiatives, while maintaining the predictability of Budget Support flows. Government must also find ways of improving the design of its poverty reduction policies and of strengthening implementation. We turn to these questions in our recommendations below.

5.3. Recommendations

Recommendations on Development Partners' Budget Support policies

325. The Tanzania evaluation holds clear lessons about what works and what does not work with regard to Budget Support. These lessons reinforce conclusions from the recent Budget Support evaluations in Mali, Tunisia and Zambia as well as from the most recent research on Budget Support published by the Netherlands Ministry of Foreign Affairs (IOB, 2012). In developing recommendations for the Development Partners, we make a plea that the formulation of future Budget Support policy should draw upon this evidence, identifying where Budget Support can generate real results, while recognising that it has limitations and that it demands an operational understanding of how relations with a partner government should be conducted within a Budget Support context. Specifically, we make four recommendations:

a) **Design policies and strategies on the use of different aid modalities, based upon the available evidence regarding their relative effectiveness.** Increasing scepticism over the effectiveness of Budget Support has marked the period of this evaluation. This has been especially marked amongst European Development Agencies but is present more widely, and is leading to a reduction and increasing marginalisation in the role of Budget Support. Yet, the experience of Tanzania has shown that, in contrast to other modalities, Budget Support can contribute to the scaling up of public spending on agreed, high priority areas in a manner which is predictable, low in transaction costs and conducive to good fiscal and macroeconomic management. Moreover, these additional resources can be utilised effectively to obtain tangible and sustainable benefits, which contribute to the reduction of non-income poverty, and which would probably support the reduction of income poverty in the longer term. Given that so many Developing Countries, with institutional and capacity profiles similar to those of Tanzania, are in urgent need of scaling up basic public services, such as education, health, water and sanitation, road infrastructure and agricultural support services, there would appear to be good grounds for continuing to make use of the aid modality, which is precisely suited to this scaling up task.

b) **Define and disseminate realistic operational expectations, regarding the potential contribution of Budget Support processes to policy making and monitoring in partner governments.** To a significant degree, the emerging scepticism over Budget Support has been the consequence of the creation of unrealistically high expectations over its likely influence on the design and implementation of partner government policies and the consequent disappointment at the failure to meet those inflated expectations. In the case of Tanzania, many DPs had expected Budget Support processes to promote a more effective poverty reduction policy, as well as faster progress in the reform of PFM, in the fight against corruption, and in the improvement of the environment for doing business. For several DPs, the modest progress achieved in each of these areas did not match the expectations, which had been created at their headquarters, generating what were, in retrospect, unhelpful pressures on resident missions to somehow "leverage" faster change. The 2005 Tanzania evaluation showed that Budget Support processes had been successful in establishing a structured, harmonised framework for setting targets for key reform and service delivery areas and for monitoring the achievement of those targets on an annual basis. This was an important contribution at the time, which has been preserved within the current evaluation period and which has also been evidenced in other countries. Thus, experience has shown that it is reasonable to expect Budget Support to facilitate the creation of such a framework. Experience suggests, however, that it is less reasonable to expect such a framework to generate fast policy results with regard to poverty reduction or to stimulate fast institutional reform – especially when such reforms are complex, "second generation" reforms, as in Tanzania during the evaluation period. Yet, Budget Support in Tanzania did facilitate some improvements in policy design and implementation, and we have concluded that with more care over the conduct of policy dialogue these contributions could have been greater. DPs' operational guidance on Budget Support therefore needs to recognise that policy influence is unlikely to be transformational, but that it can be important, when carefully nurtured and managed.

c) **In order to maximise opportunities for effective dialogue, DPs should ensure that operational practice on Budget Support respects the principle of partnership and limits the use of "conditionality" and "policy leverage".** The Tanzania evaluation demonstrates yet again that it is domestic political constituencies which dictate the pace and direction of policy reforms and that external actors have very limited influence over these domestic constituencies. It also demonstrates, perhaps more sharply than past evaluations, that attempts to "force" policy directions on government are only likely to sour the policy dialogue and to complicate the process of finding constructive solutions. These lessons from past evaluations[67] are generally well reflected in the formal policy statements of the DPs but in Tanzania, the DPs collectively failed to ensure they were properly reflected in the operational practice of managing Budget Support. It is important for DPs to ensure that their policies are applied on a systematic basis. This would entail firstly, making a well-informed prior assessment of

[67] See in particular: IOB, 2013, Daima Associates & ODI, 2005, Morrissey, 2005, and Dollar & Svensson, 2000.

whether the basis for a partnership exists, secondly defining clearly to Government what would be the minimum conditions for Budget Support, and thirdly drawing a clear distinction between the monitoring of minimum conditions and the conduct of policy dialogue on broader aspects of the policy agenda. The Tanzanian experience suggests that only by separating the supervision (or "auditing") of minimum conditions from the engagement in dialogue, can a genuine exchange of policy ideas become possible.

d) **The aid portfolio and the corresponding framework of staffing and consultancy support should be managed so as to create areas of expertise to support effective policy dialogue.** Providing a constructive input into policy dialogue presupposes, firstly, entering into the dialogue in a spirit of trust and mutual respect (following the recommendation above on policy leverage) and, secondly, bringing to bear a base of sectoral and thematic expertise so as to provide real "value added" to the dialogue. Budget Support dialogue often covers a wide range of sectors and themes, and embraces policy issues of considerable technical and institutional complexity. Appropriate and up-to-date policy knowledge and expertise is needed in order to ensure constructive inputs into dialogue. Both GoT and DP stakeholders in Tanzania commented that many agencies displayed weaknesses in this respect. If the contributions of Budget Support dialogue are to be optimised, then DPs need to find ways of overcoming these weaknesses. This implies different strategies for different DPs. For many agencies, an increasing concentration on specific sectors or themes would be needed, so as to provide policy contributions only in these areas. Larger agencies might perhaps retain a broad-based engagement in dialogue but would need to find ways of ensuring access to more specialist staff or consultants when needed. Each Budget Support providing agency ought to prepare and implement an explicit strategy to develop and nurture its areas of comparative advantage so as to be certain to bring the necessary expertise to the dialogue table.

Recommendations on policies of the Government of Tanzania

326. Budget Support is a contribution to the implementation of a partner Government's policies. Its impact – just like the impact of the national budget as a whole – is limited by the quality of the policies and strategies it must support and by the capability of the agencies and public servants charged with implementing those strategies. In several areas, the effectiveness of Budget Support in Tanzania was held back by policy and capacity weaknesses. If Budget Support is to be more effective, the instrument itself must change but the Government of Tanzania must also find ways of addressing policy and capacity weaknesses more effectively. We make three recommendations:

a) **Strengthen policy formulation in those areas, which are of most strategic importance to Government by focusing analytical and policy formulation efforts more closely on priority areas.** All governments struggle to formulate effective and efficient policies and to adapt and refine their policies in the light of results. Tanzania is no exception and the evaluation identified a number of policy areas, where there would appear to be room to improve policies: agriculture policy seems to be falling short of the impact it would be expected to have in reducing rural poverty; education policy has yet to offer solutions to the problem of maintaining quality whilst also expanding access; and energy policy is struggling to identify cost-effective ways of meeting the growing demand for electric power, while reducing the losses of TANESCO, the main supplier. Such policy problems are always difficult to solve but our perception is that the inherent difficulties are worsened by the fact that government efforts are, for various reasons, pulled in different directions so that it has become difficult to concentrate on resolving the most important policy problems. The "Big Fast Results" approach, presented by the GoT at the 2012 Annual Budget Support Review, seems to provide an excellent way to address this problem, using the "policy laboratories" methodology, which has been implemented with success in Malaysia and Indonesia[68]. The three areas of policy weakness identified above – Agriculture, Education and Energy – all fall within the priority areas identified for Big Fast Results. We therefore recommend a determined adherence to this policy formulation approach as a way of strengthening policy in these and other areas of high priority for Government.

b) **Engage with Development Partners to find innovative ways of utilising local and international technical assistance to address capacity weaknesses.** The evaluation identified capacity weaknesses as a constraint within MoF and other government ministries and departments. The IMG Report of 2010 and the PEFA report of 2009 also drew attention to these capacity weaknesses. Clearly, the primary response should be to develop local skills and capabilities and, thus, to draw on the local technical assistance market as far as possible. Yet, there are limitations in the extent to which local technical assistance can respond adequately to the specific policy needs and the particular capacity building challenges faced in the design and implementation of institutional reforms. The Government's reluctance to utilise international TA seems to be closing off a potential avenue to address those constraints, which cannot immediately be met with local expertise. While technical assistance does not always offer an appropriate solution, neighbouring countries – notably Kenya, Uganda and Rwanda – are more open to selective use of international TA for capacity building purposes and seem to derive significant benefits from this. We recommend that Government should engage in a dialogue with its DPs to find innovative ways to utilise technical assistance to build up strategic capacities.

c) **Review the current focus of PFMRP IV so as to find ways of addressing continuing core weaknesses in budget formulation, budget execution, financial reporting and control of contingent liabilities.** Our analysis of the current strategy for PFM reform showed that it included a number of important reforms and provided a useful, results-based structure for monitoring. However, it did not adequately address continuing weaknesses in budget formulation, budget execution, financial reporting and control of contingent liabilities, which were identified in

[68] The approach will involve an intense eight week, problem-solving 'lab', which will produce a concrete action plan with clear milestones and targets, and then ensure that it is incorporated into the 2013/14 annual budget. The Government of Tanzania has commissioned the expertise of the Government of Malaysia's Performance Management & Delivery Unit (PEMANDU) to design and implement the programme, run the labs and establish a President's Delivery Unit, based on the successful Malaysian model. (For information on the Malaysia experience, see www.pemandu.gov.my/gtp/Big_Fast_Results-@-Big_Fast_Results.aspx .)

the 2009 PEFA and also highlighted by more recent IMF and World Bank reports. These weaknesses undermine the functionality of the core public expenditure management system, and need to be addressed as a matter of some urgency. The objective should be to diagnose these continuing problems more carefully so as to design solutions and lay out an appropriate sequence of corrective measures and capacity building interventions. In our judgement, this is likely to require a combination of international and local technical assistance.

Recommendations on the design & management of GBS/ SBS in Tanzania

327. The evaluation has identified weaknesses in the quality of policy dialogue, and also significant limitations in the extent to which Budget Support has supported capacity development. These issues were discussed with the relevant stakeholders at the Budget Support Annual Review of 2012, and useful suggestions for addressing these weaknesses were shared with the evaluation team, some of which have been incorporated into the recommendations here presented.

328. Stakeholders in Tanzania have, for some time, been aware of the weaknesses in the policy dialogue and have taken steps to introduce corrective measures. The streamlining of the PAF over the past two years, moving towards a reduced number of indicators, has been a useful step forward. The efforts made to revive the Public Expenditure Review process should also help to introduce a stronger analytical perspective into the dialogue process. At a more intangible level, stakeholders on both sides have clearly recognised the necessity to move away from conflictive exchanges towards a more positive, trust-based framework of interactions.

329. These actions may help to move towards a more constructive framework of dialogue but we would argue that they address symptoms rather than causes. For example, although it has been possible to reduce the number of PAF indicators through a concerted effort across the DPs, the driver of indicator expansion in the past has been the fact that these indicators represent the many interests of the BSG members rather than the more selective, strategic priorities of the Government of Tanzania[69]. If this does not change, renewed pressure to increase indicator numbers will be only a matter of time. There are fault lines at the heart of the current structure, which need to be corrected if real and lasting progress is to be made.

330. We have identified four inter-related weaknesses with the current performance assessment and dialogue process. These are: (i) a lack of adequate Government ownership and leadership over the process; (ii) an inadequately informed and insufficiently strategic process; (iii) inadequate attention to the creation of national capacities for policy and reform design and adaptation; and iv) high transaction costs.[70] We present in Table 27 our diagnosis of the main causes of these weaknesses and show the links to the solutions we propose.

69 Claussen and Martinsen recognised this dynamic in their 2011 report, noting that the PAF had developed into 'the sum total of all Development Partners' individual preferences and requirements'.

70 Arguably, the high transaction costs are a symptom of the other problems and would not be an issue within a strategic, government-led process. Yet, addressing these root causes is unlikely to be a short-term process, so we believe that transaction cost reduction needs to be addressed as an objective in itself.

Table 27: Key problems in the performance assessment & dialogue process, their causes and proposed solutions

Limited Government Ownership & Leadership:

Probable causes:

- DPs' increased recourse to the use of Budget Support as "policy leverage";
- Perception of policy dialogue by GoT as an "auditing process" not a true dialogue
- One sided process: assessment of GoT performance with no corresponding assessment of DP adherence to Partnership Framework Memorandum
- Low perception by GoT of gains from dialogue in relation to high transaction costs
- Location of BSG Secretariat within the offices of the DPs, reducing GoT's administrative control of process.

Proposed solutions:

Recommendations 1,2,3 & 6, combined with GoT efforts to strengthen policy formulation in strategic areas and DP efforts to strengthen expertise in policy advice.

Inadequately Informed & Insufficiently Strategic Dialogue:

Probable causes:

- Multiplicity of objectives underlying formulation and interpretation of PAF
- Contradiction between 'auditing' of minimum conditions by DPs and desire to participate in wider policy dialogue
- Multiplicity of agents driving definition of PAF indicators, rather than a GoT driven process.
- Lack of a focus on problem solving
- Limited use of research and evaluation work to underpin policy dialogue
- Limitations in the level of policy expertise of those participating in the policy dialogue.

Proposed solutions:

Recommendations 1,2,5 & 8, combined with GoT efforts to strengthen policy formulation in strategic areas and DP efforts to strengthen expertise in policy advice.

Inadequate attention to capacity building for policy/ reform design and adaptation:

- Lack of attention to use of PAF as a framework for policy learning and adaptation
- Historical shortcomings in the provision of international TA (concerns about quality of technical expertise, and ambiguities over lines of reporting, i.e. to GoT or to DPs.)
- Consequent reluctance of GoT to draw on international TA, even in areas where capacity gaps exist which cannot be easily met with local TA.

Proposed solutions:

Recommendations 1,5 & 8 combined with GoT and DP efforts to find more innovative and effective methods of capacity building.

Excessively high Transaction Costs:

- Excessive numbers of indicators in PAF.
- Technical weaknesses in PAF indicators
- Conflictive and drawn out discussions over assessment and updating of PAF
- Too many tiers in the dialogue structure, with unclear relationships between each (sector, cluster and national levels)
- Large number of poorly harmonised Performance tranches (12)
- Declining confidence in Troika and Troika Plus system, leading to increasing use of alternative channels of dialogue by larger GBS/ SBS providers (DFID, EU, WB)[71].

Proposed solutions:

Recommendations 1,2,4,6,7 & 8.

[71] GoT stakeholders expressed the view that the rotation implied in the Troika system undermined the development of an institutional memory and compelled annual readjustments to new demands and new styles of dialogue. This may certainly be a problem, although there were no other testimonies, which directly supported this view. Our perception is that the danger of the larger GBS/ SBS providers developing alternative channels of dialogue outside of the PAF and the Partnership Framework Memorandum is a more serious threat to harmonization and thus to transaction costs, although to date it remains a potential rather than an actual threat.

331. Eight actions are proposed to address the structural weaknesses in the performance assessment and dialogue process:

1) **Separate processes should be created for the "auditing" of minimum conditions for disbursement, on the one hand, and the wider review and discussion of progress in MKUKUTA and in key reforms, on the other.** The former should depend on fulfilment of minimum conditions related to macro-economic management, commitment to MKUKUTA, implementation of PFM reforms and transparency in budget reporting, as well as respect for the underlying principles, agreed in the Partnership Framework Memorandum. The fulfilment of these conditions should determine the disbursement of the bulk of Budget Support, through fixed tranches. The content of the latter would be dictated by Government and would focus on key reforms and strategy questions, where policy dialogue might help in improving policy and solving institutional problems. Performance in these policy areas would not generally be linked to disbursements, with the exception of a limited number of small performance tranches, whose disbursement would be directly linked to easily and objectively measureable areas of performance in service delivery. In order to ensure adequate involvement of sector stakeholders, we would recommend that the latter should be divided between sector policy groups – which would be the focus of performance tranches – and a national policy group. In both cases, a framework of policy targets should be established - under the leadership of Government - and then monitored and discussed jointly. It would be important for indicators to be carefully selected and defined, to ensure that they are "SMART" in the way they are defined, not too numerous, and reasonably consistent over time.

2) **In order to avoid conflicts of interest and ensure a more streamlined assessment process, the "auditing" of the minimum conditions for disbursement of the fixed tranche should be undertaken through an annual, independent, process.** Assigning this assessment process to a separate independent group of professionals would ensure the separation of auditing and dialogue and would avoid conflicts of interest. This would be a single unified process, drawing on the conclusions of the IMF PSI review, as well as the results of PEFA evaluations and other such independent assessments, but covering the full range of the "minimum conditions" established for Budget Support, within the Partnership Framework Memorandum. This independent annual assessment would generate recommendations on the disbursement of the fixed tranches of Budget Support, as well as providing "warnings", where relevant, of signs of potential future problems regarding the minimum, eligibility conditions for Budget Support. These recommendations would provide the basis for the individual disbursement decisions of each Budget Support provider – thus decisions over disbursements would remain where they currently lie and different agencies would interpret the recommendations of the independent assessors in line with their own policies and criteria. The composition of this independent assessment group would need to be agreed between the GoT and its Budget Support partners. It should involve a mix of

Tanzanian and international professionals, with the adequate range of expertise to assess each of the minimum, eligibility conditions for Budget Support. We recommend consideration of three potential options for its composition: i) a mix of DP headquarter staff and Tanzanian academics and professionals nominated by GoT; ii) a mix of international and Tanzanian academics and professionals, nominated by the DPs and GoT; iii) a mixed team proposed by a research organisation or "think-tank" or professional auditing firm and selected jointly by GoT and its Budget Support partners, in response to a tender process.

3) **A formal annual, independent assessment of compliance by DPs with their commitments under the Partnership Framework Memorandum should be introduced**. Not only will this help to improve the processes and procedures of the DPs, it should also introduce a stronger sense of mutual accountability, helping to restore a stronger level of government ownership to the overall Budget Support process. It will be important to undertake this process in a way that does not lead to significant new transaction costs, and thus it should be a speedy review process undertaken by a maximum of 3 persons and involving only an assessment of performance against the DPs' commitments in the Partnership Framework Memorandum. It should be based upon an analysis of disbursement data, the reports of the annual review processes and a narrow range of interviews with senior Government officials and DP representatives. We would recommend consideration of three options for its composition: i) a team provided by and financed by an agency not involved in Budget Support provision (such as UNDP); ii) a mix of international and Tanzanian academics and professionals, nominated by the DPs and GoT; iii) a mixed team proposed by a research organisation or "think-tank" or professional auditing firm and selected jointly by GoT and its Budget Support partners, in response to a tender process.

4) **The 12 existing Performance Tranches should be reviewed with a view to aligning their design to the assessment framework described above, and harmonising across providers so as to reduce transaction costs.** Following recommendation 1 above, a new framework for policy dialogue would be created based on a structure of sectoral and national policy targets selected by Government and then jointly monitored and discussed. In order for this framework to work, the design of existing performance tranches would need to be reviewed and, in a number of cases, revised for consistency with GoT stated priorities and targets. The review should also serve to harmonise the designs of these schemes so as to reduce transaction costs. We should stress that the Tanzania evaluation found no evidence of performance tranches making a difference to the speed or focus of policy reforms, although we recognise that, with a more harmonised and structured design, the incentive effects might be manifested more clearly. We also recognise that DPs value performance tranches as a "signalling device" to highlight to Government the issues on which Budget Support is judged at DP headquarters, and also as a signalling device to the public (internationally and in Tanzania) about the performance areas emphasised within the Budget Support policy dialogue. In short, performance tranches are

clearly 'here to stay'. In order that such performance tranches should do no harm and to maximise their potential for positive incentives, it is essential that they should derive from Government objectives and targets, should be transparent in the way they are assessed and disbursed, as low in transaction costs as possible and assessed well in advance of the fiscal year to ensure predictability. The recommended review of performance tranches should ensure that the future design fulfils each of these conditions.

5) **In order to steadily improve the evidence base for policy dialogue, an on-going programme of policy evaluation and research work should be introduced to accompany the Budget Support dialogue, generating annual results of analyses similar to that undertaken as "Step Two" of this evaluation.** There is no good reason for policy evaluation and research work to be conducted only in the context of formal independent evaluations undertaken at periodic intervals of 5 years or more. Ideally, policy research and evaluation should be continuous processes feeding directly into the review and adaptation of policies. Moreover, undertaking policy evaluation on a continuous basis would assist in improving the statistical database, in making it more readily accessible to researchers and in steadily building up the base of knowledge, regarding the most effective components of government policies. As part of the revitalisation of the policy dialogue process, we would recommend the development of a research and evaluation programme linked to Budget Support, to be undertaken by mixed teams of Tanzanian and international academics, utilising relevant quantitative and qualitative analysis, in line with a pre-defined 5 year programme of evaluation, which would complement the more short-term analysis to be conducted under the Public Expenditure Review process.

6) **The Budget Support secretariat should be fully relocated to the External Finance Department of the Ministry of Finance.** At present, administrative and coordination responsibilities for Budget Support are shared between the External Finance Department and a group of technical assistance staff, who work for the Troika of the Budget Support Group. Partly because of the imbalance of resources between these respective groups and because the External Finance Department has a wide range of demanding responsibilities other than Budget Support, several functions which should properly speaking be the responsibility of the External Finance Department (as the beneficiary government) are undertaken by the technical assistance team of the BSG. Not only does this undermine Government ownership, it also creates confusion over where administrative responsibilities lie, adds to transaction costs, and reduces the potential for learning and capacity development within the Government team. We recommend that all administrative and coordination functions for Budget Support should be located within the External Finance Department of MoF. In order to facilitate the "hand-over process", we would recommend that consideration be given in the short term to transferring one or two of the technical assistance personnel now working with the Troika to provide support to the External Finance Department. In the medium term, the management of changes here proposed to the structures for policy dialogue will

place additional demands upon the External Finance Department, and in our view further technical assistance support is likely to be needed, focused upon mentoring, training and capacity-building. The capacity building arrangements proposed in recommendation 8) should address this requirement.

7) **The continuing suitability of the Troika and Troika Plus systems for coordinating the Budget Support Group should be formally assessed and a joint decision reached on whether to retain or modify this structure.** Some dissatisfaction with the Troika arrangement was expressed to the evaluation team by GoT stakeholders, who believe that the rotation of the chairmanship of the BSG generates unnecessary transaction costs, and by two of the three large Budget Support providers (DFID, EU and the WB), who expressed concerns over the extent to which their fiduciary and policy concerns could be effectively protected within the Troika arrangement. Both of these concerns are serious but, in our view, the latter especially because it may mean that these larger Budget Support providers would choose not to work through the harmonised arrangements currently existing but rather through parallel structures under their direct management. Not only would this increase transaction costs for Government, it might lead to a progressive breakdown of the Partnership Framework as a whole, undermining contributions to policy dialogue. In order to avoid such an outcome and identify the management model most suited to the Budget Support process in Tanzania, we recommend a formal review of the current Troika and Troika Plus arrangements. It is important, however, that such a review should lead to a clear, firm and shared decision on the future management arrangements, so as to avoid repeated changes and uncertainty.

8) **Technical assistance and capacity building support should be provided to Government in order to assist with the reformulation of the assessment and dialogue process, and launch the proposed evaluation and research programme.** We would recommend that a medium term technical assistance and capacity building arrangement should be put in place to cover the requirements over the next 3 to 5 years. This arrangement could potentially finance three components, although they would probably be best undertaken and managed separately: i) direct support to the External Finance Department in the management and coordination of Budget Support; ii) undertaking of the annual independent assessments of minimum eligibility conditions and of DPs' performance; and (iii) undertaking of the agreed programme of research and evaluation. The precise format for each of these components would need to be decided jointly by Government and its Budget Support partners but we would recommend that they should be the subject of early discussions so as to ensure that adequate funding provision is made.