



Aid Effectiveness in Tanzania

By *Apronius Mbilinyi and Vivian Kazi*

BACKGROUND

Aid effectiveness measures effectiveness of development aid in achieving economic or human development (or development targets). Aid agencies are always looking for new ways to improve aid effectiveness, including conditionality, capacity building and support for improved governance (Daniel K., 2009). The expansion of the aid definition has led to the increased number of institutions dealing with aid and international cooperation. The most important changes of the development cooperation includes an increasing number of aid providing emerging economies such as China, India, South Korea etc; a number of so called vertical funds and special programs and special international or national funds for specific purposes, among them a number of programs and funds launched in the wake of the global financial crisis of 2007-2008 in order to mitigate its effects on poor countries.

When aid relationships between the Government of Tanzania (GOT) and Development Partners Groups (DPG) deteriorated in the early 1990s the two parties agreed to engage an independent team of experts led by Prof. Gerry Helleiner to study the situation and provide recommendations on the way forward (URT 2002). In 1997 the GOT and the Development Partners (DPs) agreed to adopt the recommendations of the Helleiner Report and agreed to put in place a mechanism for monitoring progress on the agreed points. These points were elaborated to form the basis of the Tanza-

nia Assistance Strategy (TAS) which provided the framework for strengthening donor coordination, harmonization, partnerships and national ownership in the development process.

The research centered on the review of the aid relationships between the government of Tanzania and development partners and therefore lied on the review of the principles or objectives of the Tanzania Joint Assistance Strategy (JAST - 2006) for Tanzania, whose core message is reiterated in the Paris Declaration and are in essence what were being assessed in this research. The overall objective of the JAST is to contribute to sustainable development and poverty reduction in line with the National Vision 2025 and the Zanzibar Vision 2020 by consolidating and coordinating Government efforts and Development Partners' support under a single Government-led framework to achieve results on the National Strategy for Growth and Reduction of Poverty (NSGRP/MKUKUTA) and the Zanzibar Strategy for Growth and Reduction of Poverty (ZSGRP/MKUZA) as well as other national development and poverty reduction programmes. The intermediate objective of the JAST is to build an effective development partnership in line with national and international commitments to aid effectiveness by strengthening national ownership and Government leadership of the development process, aligning Development Partner support to Government priorities, systems, structures and procedures, harmonizing Government and De-

velopment Partner processes, managing resources for achieving development results, ensuring mutual accountability of the Government and Development Partners, and strengthening accountability of the Government to the citizens of Tanzania.

While the Official Development Assistance (ODA) process has become more and more complex over the years, in which recipient countries like Tanzania have had to set up aid management systems that come under strict monitoring and assessment by both domestic and external stakeholders, Tanzania has been regarded as a trendsetter and often tried out processes and programs far before other partner countries. As regards the implementation of the principles of the Paris Declaration and the dialogue between the partners, Tanzania is still well ahead of most other countries in Africa. The bottom-line is to create a good and inclusive partnership. Partnership has both a qualitative and a methodological aspect to it. The qualitative aspect contains: Change of attitude based on the partners really respecting each other; both parties being explicit about values and transparency in interest; clear contractual standards and; equality in capacity. In this context the Government of Tanzania has made progress in fostering close relations with its development partners, inter alia through implementing the Tanzania Assistance Strategy (TAS) FY 2002/03-2004/05 and the Joint Assistance Strategy for Tanzania (JAST) for FY2006/7-FY2009/10.

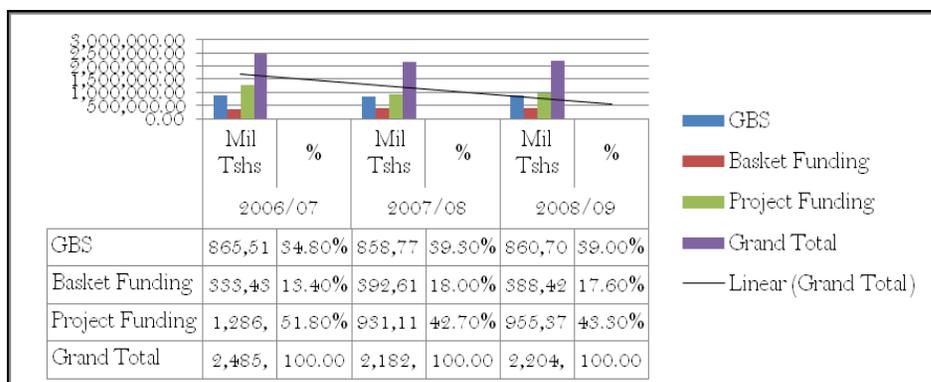
THE METHODOLOGY that was

adopted in this research was basically a combination of review of relevant documents/literature both national and international and some few consultations with representatives from a cross section of stakeholders in Government, DPs, and selected Non- State Actors. The procedure for collecting information was mainly through interviews with individuals and roundtable discussions. Structured consultations with the Joint Secretariat and the DPs at different intervals during the report writing-up process enabled the researchers to ascertain the correctness of the information gathered and hear reactions of the parties concerned on preliminary assessments reflected in the drafts of the Report. The final positions maintained in this Report represent the views of the researchers, although often they were based on the information gathered and take into account views aired by different parties. As regards the anatomy of aid flows, trends data on the overall ODA allocation and execution, the information was collected mostly from MOFEA (Mainland) and MOFEA (Zanzibar), Bank of Tanzania (BOT), selected MDAs (Ministries, Departments and Agencies), DPs/Donors and NSAs.

ANATOMY OF AID FLOWS IN TANZANIA

Generally Development aid includes both monetary and in kind assistance (URT, 2005). Hence aid flows from one government to another government, non-government to government, and from government to non-government. In Tanzania Aid normally includes all aid (monetary and non monetary) coming through Public institutional frameworks regardless of whether the resources are derived from public, private or NGO sources (at the moment include from both traditional and emerging donors such as China, India, Brazil, South Korea etc). Generally between the period 2006/07, 2007/08 and 2008/09, ODA flows to Tanzania indicate an increasing trend for grants; a fluctuating trend for loans

ODA flow to Tanzania in Volumes, and Funding Modalities



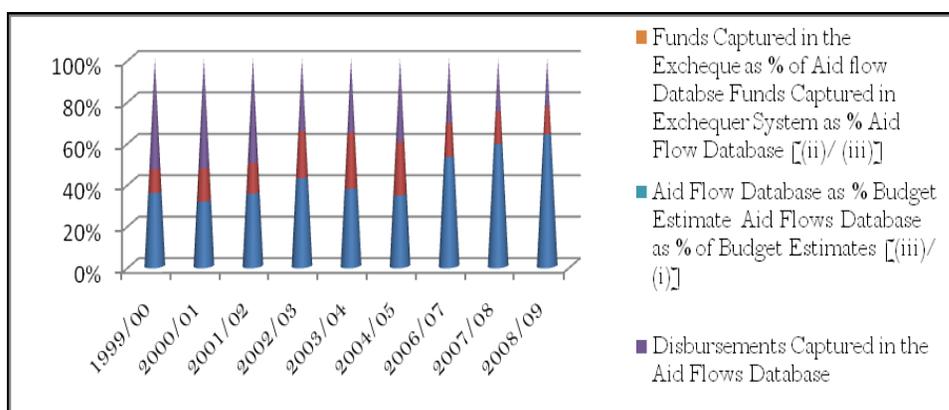
Source: AMP Data Base from MOFEA, 2010

funded through General Budget Support (GBS) amounted to 28.7%, 23.9%, and 28.3% respectively; for Basket Funding (14.4%, 11.0% and 12.9% respectively) and for projects (20.7%, 26.6% and 18.9%) respectively. The distinguished feature during this period (2006/7-2008/09) is that loans increasingly funded through projects; the increase is 1.5 times in terms of volume. However, the relative percentages show modest increase (12.6%, 10.9% and 18.0% respectively). The total ODA vol-

while Basket and Project Funding systems have taken both on-budget and off-budget formats. Analysis for the period also indicated that a significant share of project funds was channeled through off-budget systems.

Based on the data available, there is increased use of project/program financing as compared to GBS. The figure above reveals that, in 2006/07 about 51.8% of ODA support was channeled through project/programme financing with only 49.2% cap-

Gap between National Budget Estimates, Disbursements and Database Aid Flow in Tanzania (TZS Mill.)



Source: JAST 2006, MOFEA and Budget Speeches 2006/07-2008/09

umes channeled through GBS, Basket and Project Funds show fluctuating trends, although the sum of basket and project funds is higher than GBS (Table and graphs below). GBS is automatically on-budget,

captured by the Exchequer system. The trend shows a fluctuating tendency with more funding going through the government system (57.3% in 2007/08 and 56.65% in 2008/09).

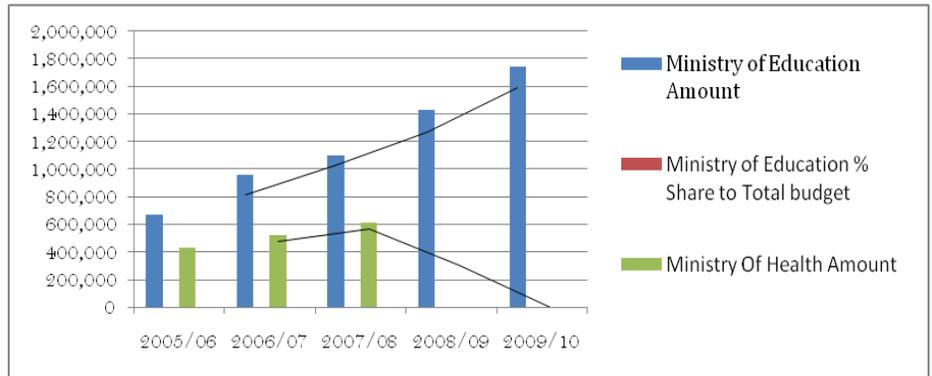
The available data also show that in 2006/07 only 34.8% of ODA flows were provided through GBS and 13.4% through basket funding. The observed increase in funding outside the government system implies none compliance to both the Paris declaration and JAST agreed between DPs and GOT. The study had also noted that the DPs preference for project financing was attributed to their perception that, projects provide more visibility, transparency and accountability.

SECTOR AID ALLOCATION

The ODA disbursements to sectors between January 2006 to June 2009 indicate that education sector received the least funding, although increasing trends was noted except for Jan-June 2007 (2.5%, 2006, 4.8% 2007, 1.8%, 2008, and 13.3% 2009) compared to other sectors. The sector which received highest funding was the Health sector (11.4%, 5.2%, 9.0% and 6.8% respectively).

Available data show that compared to non-government organizations, government projects received more ODA support in the beginning but aid has declined in the subsequent years (95% for 2006/07, 83% for 2007/08, and 87% for 2008/09). The Government budget allocations as shown in figure below present a decreasing trend for both the education and health sectors. Continued decline of funding to education

Trend in Government Budget Allocations for Education & Health Ministers for 2005/6- 2009/10(bill.Tshs)



Sources: Respective Budgets, MOHSW & MOED PER 2008 AND 2009, MTEF 2009/10-2011/12

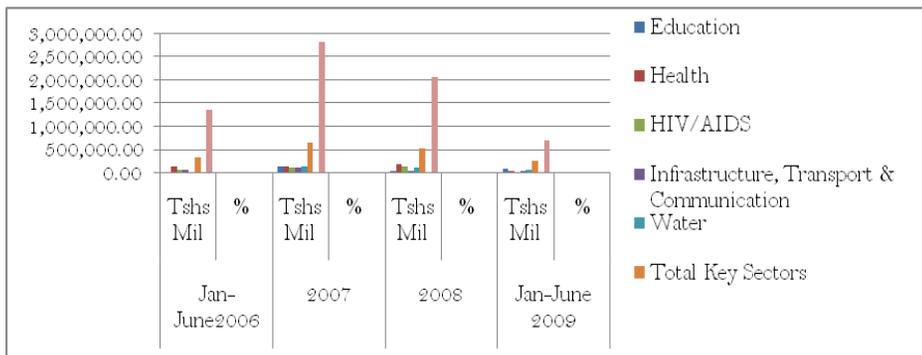
and health sector will have a negative impact in achieving MDGs and the National Strategy for Growth Poverty Alleviation (MKUKUTA).

AID DISBURSEMENT MODALITIES AND THE BUDGET

According to Government principles all aid should be budgeted for in the Government budget for the sake of transparency, accountability and inclusion in the proper budgetary process by the Government and Parliament. However, the government has been facing difficulties to enforce this principle over the years hence part of aid has always been handled off-budget. According

to the Aid Management Platform (AMP) database, among the top five DPs, Japan leads in off-budget funding (89 projects), followed by World Food Programme (53 projects), United Nations Children’s Fund (48 projects), Denmark (35 projects), and African Development Fund (27 projects). United Nations Children’s Fund uses more On-budget (61 projects), followed by United Nations Development Funds (45 projects), Denmark (36 projects), Norway (31 projects), and European Union and Sweden (21 projects each). The study also discovered that sectors leading for getting off-budget project funds included: Health (97 projects), Education (69 projects), Agriculture (48 projects), Governance (46 projects), Water (38 projects), and Roads (34 projects).

Sector Aid Allocation



Source: AMP Data Base from MOFEA, 2010

Empirical literature suggests that the aid impact on GDP growth is positive and significant in developing countries with "sound" institutions and economic policies (i.e. open trade, fiscal and monetary discipline); but aid has less or no significant impact in countries with "poor" institutions and policies. As the past literature, the study indicated that external financing to Tanzania has been playing and will for the foreseeable future continue to play a significant role in supporting government

ESRF POLICY BRIEF

expenditure, particularly for national poverty reduction efforts and implementation plans. Over the period external financing has accounted for about 40% of the national budget and 80% of the development budget. However, there is a decreasing trend for year 2010/11 and 2011/12.

AID DISBURSEMENT CAPTURED IN THE EXCHEQUER AND AID FLOW DATA BASE

The Tanzania Assistance Strategy (TAS) implementation report for the financial year 2002/03-2004/05 indicated that there was a gap between the national budget captured in the exchequer system on the one hand and between what has been disbursed and the aid flow data base. Current results also indicate that there are still discrepancies in recording donors' disbursements to the Government, i.e. what is budgeted by the Government, what is captured in the exchequer system and what is actually disbursed by DPs; as substantial share of aid is channeled outside the budget.

MAJOR FINDINGS AND POLICY RECOMMENDATIONS

- External funding to Tanzania has been instrumental for country's development and will for the future continue to play a significant role in supporting country development expenditures.
- Progress in Government and DP coordination as agreed in the JAST are not uniformly carried down to sector levels and the rates of achievement vary by sector. The composition of aid modalities varies by sector with greater levels of project aid in infrastructure where large projects are dominant while GBS is more likely in governance and reforms programs where projects are less tangible. The modality of project funding should only remain for key infrastructure investments while other follow the GBS as agreed in the JAST, while emerging donors (i.e. China, India, Brazil, South Korea, Saudi Arabia etc) need to be convinced and adjust accordingly.
- The transition from Sector Wide Approach (SWAP) to General Budget Support (GBS) has been constrained by large funds from the World Bank and the global funds which not only come in large amounts of funds but operate outside the SWAPs. There is a need to converge to the agreed JAST principles.
- Lack of implementation capacity exist leading to late disbursement of basket funds, low absorption capacity, delay in tendering process, different financial management procedures among donors and delays in processing and warranting of funds.
- The envisaged Decentralization and Devolution is hampered by weak communication between the Ministries, PMO-RALG and at grass root levels. Reforms are essential for improving communication and participation of communities, private sector and NGOs.
- There is decline in trust between the

JAST partners. Trust was high in the past years and less is available at the time the report was written. This was attributed to divergent expectations due to performance and perceived speed at which certain targets could be achieved especially on issues surrounding governance and financial management. The JAST partners need to sit down and resolve the concerns of both parties.

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The Economic and Social Research Foundation (ESRF)

51 Uporoto Street, Ursino Estate. P.O Box 31226, Dar es Salaam, Tanzania

Tel: +255 22 2760260/2760758/2760751-52

Fax: + 255 22 2760062,

E-mail: esrf@esrf.or.tz

Website: <http://www.esrf.or.tz>