

ECONOMIC AND SOCIAL RESEARCH FOUNDATION

**THE MANAGEMENT OF FOREIGN AID  
IN TANZANIA**

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**ESRF DISCUSSION PAPER NO. 15**

*This paper was initially prepared for presentation at a Workshop on Economic Management  
Dar es Salaam, Tanzania, 21 March 1997*

June 1997

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# 1. THE CONTEXT

During Tanzania's first five post-independence years (1961-1996) foreign and local private investments were expected to bring about the planned growth and development. When the expected foreign finance did not materialize, the Arusha Declaration (1967) was charted out with emphasis on self-reliance. It was envisaged that foreign aid would be mobilized and used to build the needed capacity for self-reliance.

However, the intentions of the Arusha Declaration to make Tanzania self-reliant were not realized. The failure to achieve this goal is largely attributed to the fact that the implementation of the Arusha Declaration was not accompanied by explicit economic policies to steer the economy in the desired direction. The basic industry strategy (1974) emphasizing achievement of structural change and self-reliance was ambitious in its investment programme, which was in turn sustained by using foreign aid to help close the ensuing investment-saving gap and the foreign exchange gap. The early concentration of aid in investment projects was consistent with the requirements of such an ambitious investment programme.

## 1.1 Volume of Official Development Assistance to Tanzania

Tanzania was one of the major recipients of bilateral aid in sub-Saharan Africa (SSA) during the 1970s and 1980s. In per capita terms, however, Tanzania's aid receipts have been comparatively modest, amounting to US\$17 in 1985 and rising to US\$31 in 1992. Generally, per capita official development assistance (ODA) for Tanzania averaged slightly more than US\$30 per capita per annum during 1989-1992. Over the 1980-1992 period the average hovered around US\$27, trailing such countries as Somalia (US\$36), Zambia (US\$48), Senegal (US\$51) and Botswana (US\$83). In 1992, Tanzania (at US\$31) ranked 19th out of the 46 SSA countries in the level of per capita ODA, well below Djibouti (US\$168), Cape Verde (US\$158), Botswana (US\$133), Gabon (US\$54), Zambia (US\$84), Mauritania (US\$58) and some others.

Both bilateral and multilateral assistance to Tanzania increased in large proportions in the late 1960s and during the 1970s. The willingness of donors to extend substantial amounts of aid to Tanzania can be explained from two perspectives. First, Tanzania's development policies during that time were fairly congruent with the dominant views of the social democrats in the North. Second, Tanzania was considered to be strategically important in terms of foreign policy considerations.

According to OECD data, Tanzania's official development assistance is estimated to account for over 80% of net total inflows of external capital, suggesting that private capital inflows were negligible. The annual disbursement of ODA rose from US\$51 million in 1970 to a peak of US\$1,080 million in 1992. Since then, the volume of aid has declined gradually to US\$814 million in 1995. However, the direction of the trend has differed between various sub-periods. Annual ODA disbursements increased over 13 times between 1970 and 1982, but decreased by about 30% between 1982 and 1985. They then rose dramatically from US\$487 million in 1985 to US\$1,080 in 1992.

## **1.2 Changing Forms of Aid**

Prior to the late 1970s, project assistance was the preferred form of aid, but three important changes in donor programmes in Tanzania are worth noting. First, there was a shift in emphasis from project to programme aid. This shift was prompted partly by the growing balance of payments problems and the declining utilization of capacity in the industrial and other sectors to levels as low as 10%–20% during the early 1980s. These developments were perceived as a manifestation of the unsatisfactory performance of project assistance and the realization that import support would be critically needed to raise the level of output. Increased output would originate from enhanced capacity to import intermediate inputs, which would raise the level of utilization of capacities, many of which had been created through project aid.

The second change involved a shift to recurrent budget support (e.g., DANIDA's essential drugs programme; SIDA's support for school textbooks production and NORAD's maintenance support to the Institute of Development Management [IDM] at Mzumbe). This shift was a response to the growing awareness that insufficient allocations to recurrent expenditure in the government budget had become a more binding constraint to the delivery of output and other services than allocations to the development budget. It is in this context that bilateral donors began shifting from financing new capital projects to rehabilitating existing projects and mechanisms to ease maintenance problems.

Finally, the growing concern about aid effectiveness and its relationship to the macroeconomic policy framework enhanced donor interest in the macroeconomic policies that Tanzania is putting into place. This development has been manifested in increasing attention to policy conditionality led by international financial institutions and supported by many donors. This partly explains the shift in favour of economic management and development administration and other aspects of capacity building in policy analysis.

## **1.3 Sectoral Composition of Aid**

The sectoral composition of aid has changed over time. In the 1960s and early 1970s, most project assistance was directed toward the agricultural and transport sectors. During the second half of the 1970s, emphasis shifted from agriculture to industry and energy. Transport emerged as an important aid recipient during the late 1980s and early 1990s. A significant share of aid has financed social sectors and rural development.

According to the classification of the UNDP Development Cooperation Reports, between 1989 and 1994, the distribution of aid favoured economic infrastructure (about 25%), economic management and development administration (about 20%), agriculture (about 12%), and social and human development (about 15%), as shown in Table 1.

## **1.4 The Institutional Framework for Managing Aid**

In the first half of the 1980s Tanzania grappled with formulating home-grown solutions to the crisis it was facing. When these efforts did not get support from IFIs and other donors the levels of foreign aid inflows continued to fall, a situation that precipitated an agreement with

the IMF and the adoption of a more market-oriented economic recovery programme. By this time, however, the confidence of Tanzanians in formulating their own development programmes and policies had been eroded so much that in the subsequent period the problem of lack of local ownership of development programmes became quite explicit in donor-recipient relations.

**Table 1. Sectoral distribution of the overall bilateral ODA  
in US\$ millions and percentage of shares for 1989-1995**

	1989	1990	1991	1992	1993	1994	1995
Economic management and development administration	130 (14.4)	114 (11.9)	228 (21.5)	325 (30.1)	231 (25.7)	186 (20.9)	171 (21.0)
Natural resources	15 (1.6)	15 (1.5)	21 (2.0)	17 (1.6)	25 (2.8)	25 (2.8)	23 (2.8)
Agriculture, including forestry and fishing	7 (8.0)	116 (12.1)	172 (16.2)	138 (12.8)	109 (12.1)	99 (11.1)	109 (13.4)
Industry	224 (24.8)	163 (17.1)	172 (16.2)	102 (9.4)	49 (5.4)	12 (1.3)	10 (1.2)
Economic infrastructure (energy, transport, communications)	197 (21.8)	214 (22.3)	212 (20.0)	265 (24.5)	269 (29.9)	295 (33.2)	213 (26.2)
Social and human development	177 (19.7)	163 (17.1)	136 (12.8)	134 (12.4)	140 (15.6)	116 (13.1)	116 (14.3)
Others	89 (9.7)	171 (17.9)	119 (11.2)	99 (9.2)	77 (8.6)	156 (17.6)	172 (21.1)
Total	905 (100)	956 (100)	1,060 (100)	1,080 (100)	900 (100)	888 (100)	814 (100)

Note: Percentage shares are given in parentheses.

Source: UNDP's Development Cooperation Reports (various years).  
Table 6 of 1995 Report data relating to 1992-1995.

In principle, there is a clear division of the overall and administrative responsibilities between the Planning Commission (PC) and the Ministry of Finance (Treasury) in the management of the economy, including the use of ODA. The PC is generally responsible for longer-term policy making and the broad framework of economic policies. These roles incorporate sourcing and monitoring aid funds. The Ministry of Finance, on the other hand, is responsible for short-term macroeconomic policies and fiscal and monetary management, which also entails the use of aid funds. In practice, the primary roles (planning and economic management) of the Ministry of Finance and the Planning Commission are reduced to routine functions of budgeting the domestic and foreign resources and responding to various expenditure queries from the donors.

## **2. MANAGEMENT OF AID: MAJOR CONCERNS**

The major concerns in the management of aid relate to the effectiveness of aid, trends in the volume of aid and aid as a means for building self-reliance.

### **2.1 Effectiveness of Aid**

During the late 1970s and the 1980s, aid became increasingly exposed to criticism from both the political right and the left for various and often different reasons (Riddell, 1987). One response of bilateral and multilateral aid agencies was to give added emphasis to evaluation. During this period, the evaluation function was institutionalized, and most aid agencies established evaluation units within their administrative structures (Berlage and Stokke, 1992). In a recent comparative study on aid effectiveness in Africa (coordinated by the Overseas Development Council), the findings from seven countries indicate a great concern that aid effectiveness was below expectations. Moreover, a recent opinion poll in Europe revealed limited public confidence in the EU's role in the allocation and management of aid (EU Newsletter, November 1996). About 40% of those questioned think that management of aid should be handed over to UN agencies, compared with only 4% who favour a continued direct role of EU in the management of aid.

### **2.2 Global Trends**

Politically motivated aid flows have declined since the end of the cold war. This trend has been reinforced by increased concerns among many donors about socioeconomic issues other than aid.

According to that same issue of the European Union newsletter (November 1996), development aid is one of the ten biggest areas of concern for European citizens. An opinion poll of 16,346 people showed that 77.4% consider it an important element of public life. At the same time, however, aid to poor countries in Africa, Asia and South America ranks well behind concerns about unemployment, protection of the environment, the fight against terrorism, guaranteed energy supplies, reducing inequality and defense of Europe's interest against the major power. Assistance to the countries in East and Central Europe was ranked important by 73.4% of those surveyed. Considering that this is a new element in the aid equation it is quite conceivable that lobbying by this group (73.4%) could lead to a reduction of aid to Africa, given that the absolute size of aid is not likely to increase substantially. This poll also indicated a marked fall in popular support for aid in important donor countries such as Belgium, Germany, France and the United Kingdom in comparison with a similar poll conducted in 1991.

If the prospects for aid are not bright and aid reduction is likely, then it makes sense to plan development and manage an economy on the basis of the scenario of reduced aid. More important, however, there is good rationale for reducing aid dependence, promoting self reliance and attaining a greater degree of self-determination. This is the path to sustainable development.

### **3. PRIORITY ISSUES IN AID MANAGEMENT**

Aid management will need to improve the effectiveness of aid and pay attention to enhancement of ownership of the development agenda. To this end, it is important to shift the balance in aid relations to equal partnership and to put greater emphasis on capacity building in local human resources and institutions. These and related issues are the subject of the subsequent sections.

#### **3.1 Who Owns Aid?**

The findings of several recent aid evaluations are consistent with the observation that both donors and the Government of Tanzania have contributed to the problem of limited local ownership of development projects/programmes. These include, for example, evaluations of Swedish, Finnish and Danish support.

A few of these evaluation reports are cited here for purposes of illustrating a more general phenomenon. For example, Swedish aid policy in recent years is reported to be aimed at increasing the role of the recipient country. However, according to a recent aid evaluation report, this has been difficult to achieve in Tanzania due to the country's weak economic and institutional capacity (Adam, et al., 1994). As a result, many of the projects/programmes funded by Sweden have been donor-driven, particularly in financing and personnel. Consequently, responsibility for implementation has increasingly been taken away from the government of Tanzania.

The FINNIDA Aid Evaluation Report also admits to a low local ownership of its aid assistance to Tanzania. The report states, "In principle, Tanzania is involved in all phases of project cycle. All the requests come from Tanzanian side, etc. All the missions are carried out by joint teams, as well as the selection of implementing agencies of projects". However, the report goes on to observe that the practice is different. Many difficulties arise at the implementation phase. The report concludes that the fact that implementation takes place within the local structures does not necessarily mean that implementation is not "donor-driven". The report observes that there are reported cases where intrusive donor conditions were imposed even at the level of implementation (FINNIDA, 1994). The findings of these aid evaluation reports are generalizable to most donor-Tanzania relations.

The importance of national "ownership" of development projects and programmes, however great their external inputs, derives from its inherent appropriateness and efficacy. This fact is emphasized by Helleiner et al. (1995), as well as the various donor agencies' evaluation reports. According to these findings, projects and programmes that are locally owned by those who implement them have proved more likely to work and to be sustained. These observations are very valid and warrant that high priority be given to enhancing local ownership of development policy and programmes.

As Helleiner et al. indicated, many initiatives originate from the donors, with only limited policy guidance from the Government of Tanzania. An example is given of a key policy document, the Policy Framework Paper (PFP) of 1994, which the report says appears to be a collaborative effort but whose ownership was dampened by two factors. First, the original

draft was prepared in Washington. Second, after it was agreed the World Bank introduced new conditionalities during the negotiation of a new structural credit (Helleiner et al., 1995). We concur with the recommendation by Helleiner et al. that the Government of Tanzania should insist on preparing first drafts of PFPs and related policy statements and that final versions should be jointly agreed.

The implication of this recommendation is that the government will need to mobilize its capacities in the central and sectoral ministries and key policy institutions such as the Bank of Tanzania and other capacities outside government to create PFPs and other policy documents. The capacities for policy analysis and economic management may be limited, but the limited capacities need to be mobilized and used more fully. Effectiveness of local capacities would be enhanced further if preparations were made in good time so that development of important policy documents is not done in a rush to meet very short deadlines, as has often been the practice in recent years.

This task should be regarded as a normal and regular process in the government economic management system and not as an emergency. This implies that an institutional machinery for this process will need to be put in place, including an interministerial team of experts set up for the task. This team would have the mandate to mobilize technical support from elsewhere within or outside government as need arises.

Initiatives to enhance local ownership should cover all levels of development management. Local levels in particular will have to be given special attention. Strengthening the process of setting priorities on the basis of consensus through the empowerment of grassroots institutions will enable communities to plan and implement their own development agenda.

### **3.2 Country Programmes: Toward Joint Ownership**

Donors and recipient countries should collaborate in the process of preparing aid policies and strategies and country programmes. Helleiner et al. suggest that this process should be improved by taking into account the goals and priorities of both recipient and donor. This observation is consistent with concerns raised in the recent aid evaluation reports noted above. Developments are showing some positive signs. For example, the new Danish aid strategy (DANIDA, 1994) recognizes the need for participation by partners in recipient country administrations and civil society in the design and implementation of the country programmes. The participatory process starts with inviting local experts to prepare analytical papers on the country's situation and needs. This is followed by consultations with other local partners and the Danish "resource base". In the case of formulating the Tanzania country aid strategy the process started with the invitation of a group of Tanzanian experts in 1994 to draft discussion papers on sectors and cross-cutting issues that were deemed relevant for Danish assistance. The drafts were discussed in a seminar on 10 April 1995 in which broad participation was drawn from diverse sectors in society. The seminar made proposals on sectors to be retained in the country strategy and resolved that the following need to be taken into account:

- The extent to which individual sectors have the potential for achieving overall development objectives.
- The sector's capacity to absorb resources in the form of programme assistance.



- Past Danish aid experience in the sector.
- An assessment of the comparative advantage of the Danish resource base.
- An assessment of Tanzania's priorities in relation to future Danish aid to Tanzania.

The outcome of this seminar was discussed in another seminar in Denmark in which the Danish resource base participated. On the basis of all these inputs the Danish side launched discussions with the Tanzanian authorities on the selection of sectors and forms of Danish aid. This formed the basis for the draft country strategy, which was discussed at the annual aid consultations. This type of seminar had not been organized before by DANIDA or any other donor. It marks commendable progress in the process of consultations to formulate strategies for cooperation. This experience should be taken as a good starting point, on the basis of which improvements should be made to refine participation in the preparation of other country programmes.

### **3.3 Capacity Building**

Some aid programmes are operated with little consultation, coordination or collaboration with the related activities within government and sometimes within the same ministry or even department. Operating in isolation, such "island projects" are often administered by parallel administrative machinery usually set up specially for those projects. This practice tends to erode rather than build local capacities. It is suggested that to the extent possible, donor-supported projects should be located within the respective ministerial departments or other relevant national institutions. If these institutions are deemed weak, then a case for enhancing their capacities could be made instead of operating projects in parallel structures. It has been observed that the management information systems (MIS) within the government machinery are weak, a problem that is itself characteristic of a low capacity for economic management. Capacity building should therefore be understood as a process rather than as an event or an isolated activity in a project. Capacity building in one project is often influenced by activities outside the project. This suggests that coordination with relevant activities should be given greater attention. This would require the development of a national framework to guide the capacity-building process.

Capacity-building programmes should continue to be directed toward the government's leadership role in economic management of various sectors in terms of improving policy formulation, monitoring and evaluation. In addition, planning, budgeting and accountancy management should be strengthened as a prerequisite for greater accountability and local ownership of aid efforts. However, when introducing new procedures, adequate transition periods should be allowed for, during which targeted training for the relevant government departments and field offices should be undertaken. The activities that should be undertaken during this transition should be planned jointly by the donors and government. It is imperative to recognize that capacity requirements are dynamic, changing with the challenges of economic management. As such the government should develop a framework for reviewing its capacity to manage the economy in a continuous manner in a changing environment.

Furthermore, capacity building should also include the strengthening of the local government, regional and district administrations, community-based organizations, and NGOs for the

purpose of promoting the society's actual involvement and participation in development at all levels. Greater efforts should be made to extend capacity-building initiatives to these levels. This could be done by preparing a separate programme for capacity building at local levels and non-government development agencies distinct from but complementary to capacity-building projects in the ministries.

Capacity-building initiatives should address at least four concerns: improving conditions for capacity development, shifting gradually from aid to trade relations, relating technical assistance to local capacity building, and enhancing capacity to manage development projects and programmes.

### *Improving Conditions of Capacity Development*

One major factor that reduces the effectiveness of capacity-building projects in economic management is the lack of conducive working conditions, especially the unrealistically low levels of wages and salaries for public servants. This point was recognized by Helleiner et al. (1995) and is consistent with findings in other recent aid evaluation reports. Unfavourable working conditions strangle civil service reform efforts and make it difficult for both staff and institutions to give adequate attention to the longer-term demands of economic management. The existing capacities cannot be fully utilized under these conditions and therefore they cannot be effectively developed. It is necessary to pay special attention to the civil service reform components that deal with the working conditions of civil servants (including their remunerations) and integrate the civil service into the broader programme of capacity building in economic management.

### *Gradual Shift From Aid to Trade Relations*

Reduction of aid dependence will require building of the capacity of local firms that engage in international trade. In order to build the competitiveness of local firms in the production of goods and services, donor-recipient inter-firm cooperation arrangements (with technologically more advanced firms in donor countries) should be encouraged. The nature of inter-firm cooperation arrangements should reflect the relative capabilities of the partnering firms. These arrangements should be designed along sound commercial principles, to harness cooperation to build the technological capability and competitiveness of local firms. Business negotiations would determine the extent to which the interests of the partnering parties are met. In such cases, certain conditions relating to procurement from donor countries can even be made to play a positive role in sustaining the business partnerships. For example, if such tied procurement enhances resource mobilization and necessary infrastructural support from either the donor country or Tanzania, or enhances the technological capability of the weaker partner, it may well be in the business interest of both firms to cooperate.

### *Effective Utilization of Technical Assistance*

Technical assistance (TA) is often allocated to fill current operating positions. For this back-stopping function, it has generally been effective. Short-term pressures to get the work done, however, tend to divert attention from the longer-term objectives of capacity building (of individuals and institutions). There is need to clearly distinguish the requirements for the operational functions of TA from the requirements for local capacity building. The terms of reference for the task the TA is engaged to perform should be clearly stipulated. Such terms

of reference should be agreed upon between the donor and the recipient institutions, with greater weight being placed on the latter's requirements. It should be clear that the evaluation of performance will reflect the content of the terms of reference.

Technical assistance does not have a good track record in terms of training local counterparts on the job. This failure is distinct from the problem of ineffective on-the-job training in the public service in general. The question of on-the-job training should be approached in a broader and more comprehensive manner. The lack of on-the-job training in the civil service is not only found where foreign staff are engaged, but it is also prevalent among the national staff. High level civil servants hardly have time, because of pressure from operational demands, to train junior staff on the job. For some projects, it is felt that too much emphasis is put on formal training as a means to achieve capacity building (e.g., through scholarships). Relatively less attention is given to on-the-job training. The civil service reform therefore should address this problem in a more comprehensive manner.

Another option for enhancing the effectiveness of technical assistance in capacity building and policy reforms is to address the issue of technical assistance specifically by introducing prices in that market and untying TA from other aid items. TA has been regarded as "free" and this situation has sometimes induced the use of TA to replace rather than to complement local human resources. If by being "free" TA is so misused that it erodes local capacity, then there is a case for introducing a price for this resource. Under such a system TA would be paid out of the budget of the employer. At the macro level, the TA should be allowed to compete for available foreign aid and domestic resources along with other forms of aid and other claimants of domestic resources. The TA bundle should be unpackaged and such unpackaging should start by clearly making a provision for local institutions to request the various TA components separately (e.g., personnel, equipment, training) without any prejudice. In effect TA should be completely untied. Various aid evaluation reports have revealed that in practice most donors find it difficult to accept the untying of TA from other aid packages. But we are of the opinion that this should be an area of serious negotiations between Tanzania and donors to ensure complementarity between TA and local technical capabilities.

In order to enhance the personnel-related effectiveness in technical cooperation, it is recommended that the practice of having experts and project staff outside the regular established posts should be reviewed critically with the aim of abolishing it. The vacant posts should instead be filled by recruiting operating staff to fill the line posts. This suggestion requires that experts be integrated into the national administration. The fact that the post is established in this way will not only make the determination of needs for TA personnel easier, it will also make sustainability more likely. The salary and benefit requirements that go with the post would be met from the national budget, and topping-up could be negotiated separately under some technical assistance arrangements. Salaries of these experts could be supplemented with transparency. This way the experts would work with nationals as peers, being subordinate to some co-workers and supervisors of others according to the position they occupy in the institution. Under this arrangement technical assistance personnel (TAP) and workers of aid agencies would take positions in line ministries rather than being under parallel administrative systems. This arrangement would make experts feel more accountable to the government rather than to the donor and would make the government pay greater attention to the real needs of the technical assistance personnel as their presence would have budgetary implications under the new arrangements.

In sum, the point is that technical assistance should play the role of a temporary gap filler or training for purposes of capacity building. It should complement rather than replace local capacities. In this way, capacity building in local institutions could be enhanced.

### *Absorptive Capacity*

The design of many aid projects and programmes often stipulates or assumes that both partners (government and donors) will allocate resources (financial and human) to the projects/programmes. When it comes to implementation, however, commitments are sometimes not honoured. Too often the poor implementation of aid projects/programmes reflects the failure of the GOT to allocate counterpart funding and local personnel. This situation may be explained by at least two factors.

First, aid projects and commitments tend not to be programmed with the full consideration of the government's absorptive capacity and its ability to mobilize local resources to match the aid resources. Secondly, there has been a lack of a political constituency demanding accountability of aid administrators and authorities in Tanzania to explain failures. In effect, Tanzanian authorities are not pressured by the local political constituency or by donors into being more realistic about their ability to mobilize and commit domestic resources. Consequently, there is a tendency on the part of the government to over-commit, a situation that leads to unsustainability of aid projects and programmes. As a result, local ownership of aid efforts is undermined.

If the absorptive capacity is so limited, the question that arises is whether there has been too much aid. It appears that this limitation of aid-absorptive capacity has a bearing on the type of aid and its administration. Aid is given for projects or programmes for which parallel administrative machineries are established. As noted above, such parallel machineries form island projects with their own administrative systems. These exert pressure on the existing government administrative machinery in at least two ways: by employing a number of public servants in these projects; and/or by demanding too much time and energy from officials in the respective ministries. This practice has tended to erode rather than build the government's limited capacity. As such, aid administration on the part of the government has turned out to be more capacity depleting than capacity building. In a situation of low government capacity for economic management, it seems logical to allocate more aid to build that capacity. The challenge is how to make future administration of aid projects less draining on the limited capacity of the government's administrative machinery. A further challenge is whether aid can be shifted in favour of capacity building in areas where capacity is limited (e.g., in economic management).

### **3.4 Toward Complete Resource Budgeting**

In major respects Tanzania's budget is not transparent. This is noted as one of the factors contributing to the practice by some donors of directing funds to their own projects without integrating them into the programmes and budgets of the government, or, in most cases, even failing to provide the budgetary authorities with accurate and timely information about them. It is noted that the need to meet terms of policy conditionality—a budget frame acceptable to the World Bank/IMF—contributes to excessive underbudgeting. The demands to abide within the budget ceilings override reason in realistic budgeting.

The process of planning and programming of the development projects and programmes is riddled with uncertainties about resource commitments (especially from donors). Donors could facilitate this process by providing full information on resource commitments, say over a 3–5 year period, including estimates of direct funds that would allow a higher degree of confidence in the planning and programming of these projects.

Helleiner et al. (1995) called for immediate action to strengthen the Ministry of Finance to enable it to prepare realistic budgets, make better projections of revenues, impose strict financial control on accounting officers and improve accounting of government expenditure. The authority of the Treasury in budgetary matters must be respected and protected by the highest level of national political leadership. These recommendations are still valid and should be implemented.

### **3.5 Toward Policy Direction**

Initiatives to improve aid effectiveness and progress toward formulating domestic policies have shown some positive developments. Recent initiatives to prepare various sectoral policies (e.g., agricultural policy, industrial policy, mining policy, education and training policy) are steps in the right direction. Developments in crafting a long-term development vision for Tanzania, which is currently in progress under the overall coordination of the Planning Commission, are promising and should form the basis for preparing medium-term and long-term development strategies.

### **3.6 Aid Coordination**

Coordination of donor aid falls under three categories, intra-governmental coordination, inter-donor coordination and government-donor coordination. Intra-governmental aid management is currently at its weakest relative to the overall aid management process. The problem is exacerbated by the relative strength of donor aid management in the form of parallel administrative controls and project management. There are two types of inter-donor aid coordination. Donors may either coordinate their own activities or activities may be coordinated by the GOT. Of these two, the former has a formal existence, the latter is very weak.

A major constraint to the achievement of aid coordination may be the lack of demand for it. A local constituency demanding improved aid coordination is only beginning to emerge. Also, interest in the possibility of playing one donor against another for access to donor funds has delayed the move toward aid coordination. For example, some recipients may know very well that aid coordination would demand a greater justification of their aid requests. On the side of the donors, there are indications that some donors are not keen to be coordinated, as coordination is perceived to constrain their freedom of action.

Helleiner et al. (1995) rightly proposed that to the extent possible, donor support should be organized sector wide or within subsectoral master plans developed under each ministry. In this way individual donor interventions can be harmonized along the lines of common policies and strategies. Arrangements need to be in place to allow coordination across all donors involved in a specific sector. In addition to the more general forum for exchange of information, therefore, sectoral ministries should organize specific coordinating meetings to

discuss prospective programmes and review implementation, and donors should formally commit themselves to work through them.

While overall aid coordination is expected to be spearheaded by the central ministries (Finance and Planning Commission), sectoral ministries will need to take the lead in coordinating their specific sectors. The recent initiative that some sectors have taken to establish coordination mechanisms for their sectors is a step in the right direction. The initiative taken in the education sector may be cited here for illustrative purposes.

The Education Sector Coordinating Committee was established in recognition of the fact that the concerns of education go beyond the purview of the Ministry of Education and Culture. The committee includes members from related ministries (e.g., Finance, Prime Minister's Office, Science and Technology, Higher Education, Civil Service Department, Labour, Youth Development). The composition of the committee draws from local capacities from more than one ministry to enhance sectoral analysis and policy analysis. The committee discusses all matters relating to education sector policies and development programmes and guides initiatives for education related policy studies and research. Various donor initiatives, studies and proposals are studied by the committee and decided upon in the light of sectoral policies and programmes. The committee is served by a small secretariat, which draws technical support from existing local institutions (e.g., universities, other institutions of higher learning, consulting firms, research institutes). This initiative is an important step toward effective sector-wide coordination.

It should be emphasized further that aid coordination remains primarily the responsibility of the recipient. Effective aid coordination can be achieved by formulating a clear national aid strategy. Some of the key elements of such a strategy are the national objectives, strategies and priorities; an articulation of roles of the recipient, donors and implementing agencies; a stipulation of modes of disbursement and accountability; and areas of focus and concentration.

### **3.7 Aid Conditionality**

In several recent studies aid conditionality was found to be a one-way rather than a two-way process. Tanzania has been on the receiving end in the conditionality relationship. Overall conditionalities have been designed to facilitate the realization of results from the use of the aid resource. However, aid conditionalities have been more donor-driven than the product of discussions and agreement by recipients and donors as partners in development. Tanzania has sometimes implemented the conditionalities with reluctance and a low level of commitment. This shortcoming has tended to limit the realization of the objectives of aid, thus limiting the effectiveness of the aid. If conditionalities are designed upon mutual agreement, based on the commitment of both partners, then the effectiveness of aid is likely to be enhanced. In this context, it will also be necessary to broaden the concepts of accountability and transparency and to clarify the role of recipients and donors. Currently donors perceive accountability and transparency as issues binding only the recipient. Donors too should be held accountable to the recipient on the basis of negotiated and agreed criteria.

### **3.8 Dealing with Corruption**

Among donors and the Tanzanian public, according to Helleiner et al. (1995), there is a widespread perception of increasing corruption at the highest echelons of government. Of note are large amounts of balance of payments support provided to specific firms in the form of commodity import support and open general license funds that have not been paid back yet. Widespread tax evasion also undermines the credibility of the government in the eyes of Tanzanian citizens, as well as donors and their taxpayers, the report observed.

Among the measures the Government of Tanzania must take immediately to restore its credibility are: an increase in budget transparency; clearance of the pending issues of unpaid commodity import support and OGL cash cover; audit of the tax exemptions of the Investment Promotion Centre (IPC); reform of the Customs Department; review and amendment of the National Investment Promotion and Protection Act to separate promotion activities from regulation activities; and removal of the powers of the IPC to grant tax exemptions. In general, the design of the post-election government's policies should avoid discretionary policy instruments in favour of transparent non-discretionary rules.

The biggest challenge facing the government at the moment is that of salvaging its credibility in view of the gross mismanagement in its administration. The issue of corruption is a thorn in the people's flesh and has become very irksome to the external donor community. The recent move by the President to set up a special task force to look into the incidence of corruption and identify major areas reeking with the evil, as well as come up with recommendations on how best to curb corruption, is a step in the right direction. The report (the Warioba Report) is out and has been made public; what is awaited is the implementation of its recommendations.

## **4. CONCLUDING REMARKS**

The degree of Tanzania's dependence on aid has increased over time in spite of the declared objective of the Arusha Declaration to achieve self-reliance. This fact raises concern and underscores the need for an aid strategy that focuses on the gradual and smooth reduction of aid as a vital resource in the development agenda. The most realistic policy option would be to plan for better use of aid resources and the ultimate phasing out of aid dependence over time. This strategy should be a top priority for Tanzania, with support from her partners in development. Reduction of aid dependence has at least three policy implications: (1) that more emphasis needs to be placed on domestic resource mobilization; (2) that greater attention must be given to more efficient use of local natural and human resources; and (3) that priority must be placed on building national capacity, especially in the management of the economy. In particular, domestic resource mobilization should emphasize three fronts: revenue collection efforts and budget management more generally; savings mobilization; and export development and promotion.

Tanzania has often had difficulties in meeting its commitments in donor funded programmes. The failure to honour commitments has contributed considerably to the erosion of donors'

confidence and trust, as well as of the government's credibility. In order to resume aid relations in which there is mutual trust and confidence this situation needs to be rectified. Failure to meet commitments can be traced to the weaknesses in budget management, absence of clear priorities for commitments, limitations on the capacity to design realistic programmes, and weaknesses of monitoring and accountability mechanisms. Overcoming these weaknesses calls for designing ways of reducing demands on the limited local administrative and management capacities while giving greater attention to enhancing the capacity for budget management.

The shift to sectoral aid or budget support is more consistent with co-financing arrangements whereby several donor resources and domestic resources would be allocated jointly to priority sectoral activities or activities approved in a well managed budget. This arrangement would reduce administrative demands by limiting the number of separate aid relationships Tanzania has to manage and would facilitate harmonization and standardization of aid procedures.

Management of sectoral aid and budgetary support, however, demands a greater capacity for sectoral planning and management and budget management. This is an area that calls for immediate action to put in place effective mechanisms for coordinating sectoral plans and activities and managing budgets. Enhancing the capacity for budget management and sectoral coordination can be effected in the short term through mobilization and effective use of domestic capabilities within any one ministry (or government department), across related ministries (inter-ministerial teams of experts) or outside the government system. In particular, more effective use of capacities in universities and research institutes, other institutions of higher learning, NGOs, and private sector and consulting firms can augment the limited capacity of the government machinery in budget management and sectoral economic management. Technical assistance from outside the country would be selectively invited to not only fill gaps in local capacities, i.e., complement local technical capabilities but also play the role of enhancing rather than replacing local capabilities.

Mobilization and effective use of economic managers and supportive experts is a major challenge of the civil service reform initiatives. In particular, the components relating to pay reform, personnel management, organization and efficiency reviews, and training and capacity building deserve highest priority.

Aid relationships should be reviewed to determine new patterns of partnerships in development on more equal terms than has been the case so far. The balance of accountability, transparency, coordination and conditionality needs to be improved so that both partners in development play their new roles effectively.



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