

AID HARMONIZATION AND ALIGNMENT – Don't leave out Creditors!

The case of Tanzania

1.0. Problems with Donors and Creditors:

- 1.1. Prior to 1995, Tanzania experienced a period of difficult relations with her Development Partners, namely donors and creditors. These problems led to a suspension of large amounts of aid and credits by donors and creditors. Poor Aid and Loans management by the Government was one of the sources of the problem.
- 1.2. But this problem of relations between the Government of Tanzania and her development partners were to be anticipated. Tanzania receives aid from over 50 countries; this is on top of international organizations and international financial institutions. The major constraints to aid and loans effectiveness were poor donor coordination and lack of Government ownership of reforms.
- 1.3. There are too many donors, creditors, projects, sets of procedures, and different conditionalities. For example, Tanzania produces about 2400 reports annually to donors. And just for multilateral development banks, the Government is required to submit 8,000 audit reports annually. This seriously undermines capacity development to audit public expenditure as a whole.
- 1.4. Different donor and creditor relationships bring with them different conditionalities tied to aid and loans. For examples, the 1996 – 99 Enhanced Structural Adjustment Facility (ESAF) had 52 formal conditionalities. The 2000 – 03 Poverty Reduction and Growth Facility (PRGF) had 58 formal conditionalities.
- 1.5. With this kind of a scenario, how do you expect good and progressive relationship between many variety of donors and the recipient country, in this case Tanzania?

2. Finding a joint solution

- 2.1. A commission of independent advisors, led by Professor Gerald Helleiner were commissioned to evaluate and come up with recommendations on how to improve aid relationship in Tanzania. The recommendations of the “Helleiner report” which was jointly adopted by the Government and Donors in 1997, included promoting Government's ownership and leadership of the development process, together with harmonization of aid to Tanzania by donors.
- 2.2. Other recommendations in the Helleiner report included; the need for the Government of Tanzania to set out a clear vision and set national priorities for development; greater donor transparency; co-ordination of aid modalities; rationalization of donor assistance; strengthening of Government financial systems and improvements in accountability and enhanced effectiveness of the budget management process.

3.0. A way Forward:

- 3.1. In response to the above recommendations the Government of Tanzania initiated a series of discussions with her development partners which led to the launching of the Tanzania Assistance Strategy (TAS), in June 2002.
- 3.2. Government – donor relations has so far recovered from the crisis it experienced in the early 1990s. A number of measures are being attempted to improve aid co-ordination and government ownership. One of this measures is the establishment of the Tanzania Assistance Strategy.

- 3.3. In the TAS, the Government declares its commitment to tackle major concerns such as governance, transparency, accountability and capacity building to improve aid effectiveness. Under the effectiveness in the delivery of foreign aid, the government is also trying to reduce transaction costs of foreign aid.
- 3.4. While a number of thorn issues in the Government – donor relationship have been addressed and are continuing to be addressed; the issue of conditionalities have taken a back seat. For example, the IMF programmes in the country show that conditionalities for performance criteria have increased from 10 for ESAF before year 2000 to 13 for the first PRGF launched in year 2000. Conditionalities identified as benchmarks have increased from 39 for ESAF to 45 for the first PRGF. It is further noted that ESAF did not have conditionalities for good governance but 3 were introduced in the PRGF between 2000 to November 2002. The World Bank Adjustment Lending facility in Tanzania had about 89 conditionalities between 1997 and 2003.
- 3.5. TASOET calls for conditionalities to be brought under the harmonization process being carried out now. Instead of conditionalities being set alone by donors and creditors, they should be jointly developed as “agreed undertakings” for effective aid/credit utilization for poverty reduction.
- 3.6. The preparation of the second PRS has shown that it is possible to get together key stakeholders in the development of the country and work towards harmonizing and prioritizing their interventions in dealing with poverty. The input and impact of creditors to poverty reduction in Tanzania is quite significant such that it is not practical for them to be left out of the aid harmonization and alignment process.
- 3.7. While on one hand aid harmonization in Tanzania is based on the Tanzania Assistance Strategy, however the CSO participation in Development policies is currently based on the PRSP. PRSP was prepared largely on the bases of the TAS. However, you cannot talk about PRSP without referring to PRGF. But PRSP is participatory and PRGF is not participatory, thus shutting out an important national platform for participation in discussing and influencing macroeconomic issues. However, it is important to note that the second PRSP being implemented has taken into consideration this participatory deficiency on macro-economic issues, and thus it has included most of the macro economic issues in a deeper way than they were addressed in the first PRSP.
- 3.8. The PRSP process did leave out the IMF in terms of promoting public participation on PRGF, and the current global aid harmonization initiatives should not make the same mistake of not getting the IMF on board the process the soonest. Therefore, it is important for the DAC Declaration to clarify and review the 'gate keeping' role of the IMF in terms of donor/recipient relationship and how the issue of donor and creditor conditionalities can be harmonized in order to promote deeper policy ownership and flexibility among recipient countries. It is important to clarify the 'gate keeping' role of the IMF in the aid harmonization and alignment process, since the IMF has a major influence on the timing and the level of aid interventions in a country from donors, but also the IMF has an impact on influencing certain types of conditionalities attached to aid and loans offered.
- 3.9. This is important because most of the time, the same countries which are donors, are at the same time creditors to the same countries. Usually aid and credits have different sets of conditionalities. Also, as a way of reducing aid transaction costs it is important that the issue of harmonizing conditionalities among donors and creditors be given its due weight and importance in the current harmonization process. Equally important, harmonization and alignment should not only deal with aid, but credits and loans be also included.
- 3.10. For aid Harmonization and alignment process to be effective and bring the desired results, it has to look at a bigger picture of development in a country. Not only aid play a significant role in the development of the country, but credits and loans are equally important. Therefore, a practical way be found to include creditors in the harmonization process.