

## **General Budget Support in Tanzania: A Snapshot of Its Effectiveness<sup>†</sup>**

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### Introduction

Since the mid-1990s, donors and the Government of Tanzania have worked very hard to repair relations that had become severely strained. Today, Tanzania is regarded by many as a model of donor-Government “partnership.” The Poverty Reduction Strategy (PRS), which received the endorsement of the Boards of the IMF and World Bank in late 2000, is the basis for the partnership. A variety of mechanisms have been developed to encourage greater alignment of donor assistance with the priorities outlined in the PRS and the harmonization of operational procedures among donors (Odén and Tinnes 2003, OECD/DAC 2003, Ronsholt 2002). Most recently, donors have begun discussing the possibility of developing a joint country assistance strategy. All of these measures are intended to enhance local “ownership” of the development process and reduce the transaction costs of aid for the Government. Principles governing the relationship between donors and the Government are spelled out in the Tanzania Assistance Strategy (TAS), and both parties’ adherence to their respective commitments is evaluated in advance of Consultative Group meetings by an Independent Monitoring Group (IMG).<sup>1</sup> This type of institutionalized “mutual review” process, conducted by an independent body, is unique to Tanzania.

As these processes have developed, Tanzania has seen a significant increase in the amount of official development assistance (ODA) it receives. Between 1999 and 2002, net ODA rose from \$990 million to over \$1.2 billion, of which 58 percent is estimated to have accrued to the Government (World Bank 2003a). In addition, donors have increasingly shifted their assistance away from financing individual projects toward more flexible forms of assistance, including sector baskets and general budget support. In Tanzania's FY02, the share of assistance received by the Government that was provided as program support stood at 58 percent, up from 32 percent in FY99 (World Bank 2003a).<sup>2</sup> And it appears this trend is likely to continue (see Table 1). Some donors that have not contributed to sector baskets, such as Belgium, expect to begin providing assistance in this manner. The UK has become the first donor to shift its sector-

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<sup>1</sup> The development of the TAS and IMG can be traced to a report prepared under the leadership of Gerry Helleiner in 1995, popularly known as the Helleiner Report, which examined the relationship between donors and the Government and recommended ways in which the relationship might be improved.

<sup>2</sup> Tanzania's fiscal year begins on 1 July and ends on 30 June. As such, FY99 refers to the period 1 July 1998 – 30 June 1999.

earmarked assistance into general budget support, and other donors hope to follow suit.<sup>3</sup> USAID does not contribute to any of the sector baskets, nor does it provide assistance in the form of general budget support. In Tanzania, USAID stands out as an obvious outlier among donors.

This brief paper represents an effort to capture, in a very modest way, the effectiveness of general budget support as an aid instrument in Tanzania. It is based mainly on interviews conducted over the course of a few weeks with a sample of donors, most of which provide general budget support, though in varying degrees; a small number of Government representatives; and several non-governmental actors.<sup>4</sup> It thus provides only a rough snapshot of the salient issues surrounding the increasing shift among donors to provide assistance in the form of general budget support in Tanzania. An attempt is made to examine the issues in the context of a broader international effort to evaluate the effectiveness of general budget support. The paper then explores situations in which general budget support may not be the most appropriate aid instrument and offers suggestions for the types of complementary investments that might improve the effectiveness of general budget support.

### The Case for General Budget Support

It is now widely agreed that local “ownership” of the development process is a pre-requisite for the achievement of sustainable results. It is argued that by financing a multiplicity of independent projects, often with different reporting requirements and sometimes with competing objectives, donors have undermined local ownership and capacity, thus impeding development progress (Justice 2001). This is particularly the case in highly aid-dependent countries. Providing assistance in the form of general budget support to governments that have reasonably sound policy frameworks in place has been touted as a response to the problems posed by independent donor projects. The argument is that general budget support encourages greater local ownership of the development process by reinforcing accountability relationships within governments and drawing on and developing the capacity of governments to define and manage programs. This, in turn, is thought to translate into more significant and sustainable reductions in poverty.

Within the context of the OECD/DAC, the international community is currently developing an analytical framework for evaluating the poverty-reducing impact of general budget support relative to other aid instruments. The framework seeks to establish a chain of causality between general budget support and reductions in poverty.<sup>5</sup> While the framework is extremely comprehensive in terms of charting postulated causal linkages between the input of general budget support, short-term outputs, two levels of intermediate outcomes, and final impacts, it can be crudely summarized as having two main components. First, the input of general budget support is expected to improve a recipient government’s management of public expenditure, and the framework contains a credible chain of causality to substantiate this.

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<sup>3</sup> It was also reported that NGOs perceive they are receiving less funding from donors as a result of the increasing use of general budget support, but figures were not available to confirm this. When asked, most donors said they had no intention of reducing the amount of assistance made available directly to NGOs.

<sup>4</sup> A list of persons interviewed is provided in Annex 1.

<sup>5</sup> The framework was initially developed in OPM and ODI (2002), but was recently updated in EuropeAid and ODI (2003). The following discussion draws heavily on these two documents.

General budget support disciplines the intra-governmental budget allocation process by limiting the access of line ministries and other layers of government to extra-budgetary finance. In principle, this encourages greater governmental ownership over aid-financed programs and projects, allowing recipient governments to better implement their development strategies. General budget support also draws on existing and helps strengthen – through learning-by-doing effects – recipient capacity to manage resources effectively. These are probably the strongest arguments in favor of providing assistance as general budget support.

Second, according to the framework, better public expenditure management is expected to translate into improved service delivery outcomes and ultimately poverty reduction. This aspect of the framework seems less developed and requires greater leaps in logic than the first. There are many reasons why public expenditure that is more sensibly allocated to priority sectors thought to have the greatest impact on poverty does not, in fact, have such impacts. As noted in World Bank (2003b), similar levels of public expenditure are associated with very different outcomes in sectors such as primary education and health. The reverse is also true. In addition, while the framework suggests improvements in public expenditure management have important effects in terms of strengthening democratic accountability and encouraging private sector development and growth – all of which are thought to be crucial to poverty reduction – the causal connections are less clear. Many of these issues will be discussed in greater depth in a subsequent section of the paper.

An important point to note is that general budget support can also have a disciplining effect on donors. Donors often have their own priorities when providing assistance to developing countries, which may or may not correspond to countries' own development priorities. Providing assistance as general budget support means donors are less able to influence the types of programs and individual projects that are funded. Instead of directly funding their priorities, donors are expected to exercise their influence by engaging in a policy dialogue with the recipient government to jointly determine the priorities that will be funded. While donors may lose some influence over individual projects, they gain quite a bit more leverage over the overall resource envelope under a general budget support arrangement. In exchange for greater authority over the details of program and project implementation, recipient governments lose some measure of autonomy over the overall budget allocation process. The dialogue between donors and a recipient government that accompanies the provision of assistance as general budget support is likely just as – and possibly more – important than the aid itself. The analytical framework developed to evaluate the effectiveness of general budget support therefore views policy dialogue as an input equally important to the finance.

### General Budget Support in Tanzania: The Set-Up

#### *The PRBS*

Most major donors active in Tanzania provide some general budget support through the Poverty Reduction Budget Support (PRBS) facility. The facility is a single account into which donors disburse the general budget support they provide to the Government and can be drawn upon by the Government when necessary. The PRBS grew out of the Multilateral Debt Fund (MDF), which was established in the late 1990s to help the Government meet its debt service

obligations to multilateral financial institutions. When Tanzania reached the decision point for debt relief under the Heavily Indebted Poor Country Initiative in 2000, the reason for the MDF's existence disappeared. Contributing MDF donors thus created the PRBS facility to continue providing the Government with flexible assistance in support of its PRS.

Currently, eleven donors contribute directly to the PRBS.<sup>6</sup> The UK is the largest PRBS donor in absolute terms and expects to soon channel approximately 70 percent of total assistance to Tanzania through the PRBS facility. Some contributors to the PRBS are donors that, for various reasons, do not typically provide assistance in the form of general budget support but are experimenting with it in Tanzania, such as Canada and Japan.<sup>7</sup> The World Bank's Poverty Reduction Support Credit (PRSC) is very closely coordinated with the PRBS and roughly doubles the amount of assistance in the form of general budget support available to the Government on a bilateral basis. Germany has chosen to provide general budget support in the form of co-financing of the PRSC since it was thought that a similar World Bank investment might provide added quality assurance for domestic constituencies. The UK recently chose to roll its direct support to the health sector program into its PRBS contribution, arguing that it continues to support the health sector through the general budget support it provides to the Government while better respecting intra-governmental lines of accountability for budget resources. Certain other donors also expect to eventually shift their sector-earmarked assistance into general budget support. The World Bank has already proposed rolling the third tranche of a combined credit/grant in support of the health sector into a future PRSC.

#### *The Performance Assessment Framework*

A Partnership Framework Memorandum (URT 2002a) governs the provision of general budget support to the Government of Tanzania, and all PRBS/PRSC donors currently subscribe to it. The Partnership Framework aims "to minimize transaction costs, to harmonize performance benchmarks and dialogue between the parties and to link funding commitments by the donors to achievement of set targets" (p. 3). It also seeks to increase the predictability of donor flows to Tanzania. The performance benchmarks and targets against which donors make their aid commitments and that ultimately trigger disbursements are set out in a Performance Assessment Framework (PAF). The PAF contains a list of Government actions – for the current year plus indicative actions for the subsequent two years – and 60 outcome and impact indicators. The Government's progress in undertaking PAF actions is assessed during the annual and mid-year reviews held by the Government and donors, and the PAF is regularly updated on the basis of these reviews.<sup>8</sup> While all donors try to reach a consensus view on the Government's overall progress on PAF actions and indicators during the annual review, each reserves the right to disburse against its own assessment of progress.<sup>9</sup> However, the Partnership Framework does not permit donors to disburse against actions or indicators that are not specified in the PAF.

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<sup>6</sup> These are Canada, Denmark, the EC, Finland, Ireland, Japan, the Netherlands, Norway, Sweden, Switzerland, and the UK.

<sup>7</sup> Japan's contribution to the PRBS consists of MDF funds that were not previously disbursed.

<sup>8</sup> The version of the PAF referenced in this report is URT (2003a).

<sup>9</sup> In practice, the consensus assessment seems to determine most donors' disbursement decisions. The obvious exception is the World Bank. The World Bank requires that certain actions be completed, including a list of actions in the environment sector that few other donors seem to consider, for PRSC disbursement. The EC disburses a

There are currently about 65 actions in the PAF organized under several key objectives derived from the PRS.<sup>10</sup> Actions are linked to medium-term outcomes, though, in some cases, the relationships between actions and medium-term outcomes are poorly specified. The actions also tend to emphasize the development of laws, strategy documents, plans, and reports, with relatively less attention given to enforcement, implementation, and outcomes or impacts. This, however, is slowly changing. The 60 above-mentioned indicators were added to the PAF in 2003, and progress on these indicators is supposed to be considered during the two PRBS/PRSC reviews. The EC is the first donor to explicitly disburse a portion of its PRBS contribution against progress on the PAF indicators. In FY06, a share of the EC's PRBS contribution will be determined by progress on ten education and health indicators found in the PAF.<sup>11,12</sup> While most donors agree their PRBS contributions should eventually be based on these types of indicators, there is no consensus on the speed with which such a move should take place. There also exists some disagreement with regard to the level of indicators that are most appropriate, given that many factors beyond the Government's control can affect outcomes and, certainly, impacts. Donors did express hope that eventually the PAF would no longer be needed, and PRBS contributions could be based entirely on the annual PRS Progress Reports prepared by the Government. Currently, however, the Progress Reports do not offer the breadth and quality of information donors would require for them to replace the PAF.

The PAF therefore is the basis for the policy dialogue that takes place between PRBS/PRSC donors and the Government.<sup>13</sup> However, another important element of the policy dialogue is an annual public expenditure review (PER) process that began in FY98 and has increasingly opened the budget process to actors outside the Ministry of Finance. While guided by the World Bank and Ministry of Finance, a PER working group has been established that includes representatives from other elements of the Government, PRBS donors, UN agencies, research and academic institutions, and civil society. This working group sets the analytical agenda that informs the PER and ultimately forms the backbone of an external review of fiscal developments. A number of line ministries, particularly those with responsibility for PRS

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portion of its budget against an overall assessment of progress and another portion against progress on a set of specific indicators. The EC's approach is described in more detail below.

<sup>10</sup> The objectives are: (1) reduce income poverty; (2) improved poverty monitoring and evaluation; (3) macro-economic stability; (4.1 and 4.2) improve effectiveness of delivery of public services and overall incentive environment; (4.3) improved performance of the public sector; (5.1, 5.2, and 5.3) minimize resource leakage and strengthen accountability; (6) environmental sustainability (URT 2003a).

<sup>11</sup> These indicators are: net primary school enrollment rate, girl/boy ratio in primary education, girl/boy ratio in secondary education, drop-out rate in primary school, percent of students passing Primary School Leavers' Exam, transition rate from Standard VII to Form I, DPT3 coverage of children under 2 years, number of outpatient visits per capita p.a., TB treatment completion rate (cure rate), and proportion of births in Government health facilities.

<sup>12</sup> The EC's current financing agreement with the Government covers the period FY04-06. In FY04, the EC will disburse all of its PRBS contribution against an overall assessment of progress as determined during the PRBS reviews – what the EC describes as a “fixed” tranche of general budget support. In FY05, it will disburse a portion of its PRBS contribution as a fixed tranche, and the remainder of its contribution – a “variable” tranche – will depend on the Government's performance against a selected number of public finance indicators. In FY06, a portion will take the form of a fixed tranche, another portion will be a variable tranche based on performance against public finance indicators, and a third portion will be a variable tranche dependent on performance against the education and health indicators.

<sup>13</sup> PRBS/PRSC donors also meet annually with the Government for a budget review shortly after the budget is issued to examine the content of the budget and evaluate budget execution during the previous year.

priority sectors, prepare sector PERs as part of the analytical agenda, though coverage is by no means complete, and the reports seem to vary in quality. The external review essentially serves as a status report on the Government's overall fiscal situation, the extent to which the priorities articulated in the PRS are reflected in the budget, and the progress made in ensuring funds reach their intended destinations. The findings of the external review are presented at an annual consultative meeting, open to a broad set of actors, which is held prior to the finalization of the Government's budget.<sup>14</sup>

### *Other Reforms*

The above is a necessarily over-simplified description of the major processes surrounding PRBS/PRSC contributions to the Government of Tanzania. In fact, the Government is undertaking a host of reform programs that influence donors' decisions to provide it with general budget support. Ronsholt (2003) offers a detailed description of many of these, but some of the most frequently mentioned include a Local Government Reform Program, whose aim is to decentralize service delivery; a Public Financial Management Reform Program, which includes the introduction of an Integrated Financial Management System (IFMS) throughout the Government; the development of a Poverty Monitoring System, whose objective is to improve routine data collection systems; and the development and implementation of a National Anti-Corruption Strategy. The PAF includes a number of actions related to these and other reform efforts that are underway, so while the PRBS/PRSC donors' main interlocutor is the Ministry of Finance, a satisfactory assessment of progress during PRBS/PRSC reviews depends on the efforts of many Government ministries and different levels of Government in carrying out reforms. Furthermore, there are several sector-specific reform efforts underway, which are not explicitly introduced in the PAF but ultimately have a great deal of bearing on the outcome and impact indicators that eventually will be used to evaluate the effectiveness of general budget support. A donor wishing to use general budget support in Tanzania, then, must pay close attention to all of these processes.

### General Budget Support in Tanzania: A Rough Assessment

This section provides a rough assessment of the effectiveness of general budget support in Tanzania. It seeks to examine the extent to which the objectives set out in the Partnership Framework Memorandum are being met, whether some of the cause-and-effect linkages postulated in the analytical framework developed under the auspices of the OECD/DAC for evaluating the effectiveness of general budget support are evident, and the prevalence in Tanzania of certain conditions that are often given as reasons for not using the instrument of general budget support.<sup>15</sup> The assessment is invariably incomplete, as it is based primarily on impressions obtained from interviews with only a small sample of stakeholders, most of them representatives of official donor agencies. The interviews took place at roughly the same time as

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<sup>14</sup> Some argue that broader consultation should take place earlier in the budget cycle in order to have an effect on the immediate year's budget (See World Bank 2002).

<sup>15</sup> The questions used to guide interviews can be found in Annex 2. They were developed with an official donor providing some amount of budget support in mind. Questions were adapted for different audiences, with different questions being emphasized depending on the interviewee, but they did not diverge from the key themes.

the November 2003 annual PRBS/PRSC review, which, by many accounts, was a difficult and somewhat contentious review.

### *Policy Dialogue*

Many PRBS/PRSC donors see the policy dialogue to which they gain access by providing the Government with general budget support as the most important element of the PRBS/PRSC arrangement. The budget, annual, and mid-year reviews, as well as the PER process, provide significant space for donors to influence many of the issues that will be addressed below. Some of the smaller donors, in particular, view the PRBS as a way to extend their reach and have greater impact with their resources. In principle, the dialogue is open to all donors, regardless of whether they provide general budget support. However, in practice, the most important elements of the PRBS/PRSC arrangement with the Government – for example, the negotiation of PAF actions – are generally closed to non-PRBS/PRSC donors. Thus, a contribution to the PRBS facility, even if quite modest, might provide the leverage needed for USAID to exercise greater influence over central Government policies and budget priorities.<sup>16</sup>

In spite of the elaborate system that has been developed to manage the ongoing policy dialogue with the Government, PRBS/PRSC donors hold somewhat mixed views about the quality of the dialogue in which they are engaged. Some donors have been disappointed by the fact that the Government's senior-most policy-makers are not regularly engaged in the process. Invariably these donors feel the dialogue has been treated by both donors and the Government as a technical matter rather than a policy matter and thus overlooks some serious policy issues. Enhancing the policy relevance of the dialogue would likely require that greater attention be given to those elements of the Government's budget that are not considered priority expenditures on the basis of PRS objectives or are not necessarily developmental in nature, and several donors have recognized the need for this. The issue remains whether the Government will be willing to undergo this level of scrutiny. One interviewee noted that the Government seemed ill prepared for the level of donor intrusiveness on its internal processes that accompanied the increased provision of general budget support.

Certain other donors seemed satisfied with the Government's engagement in the policy dialogue, though several noted the capacity constraints the Government, particularly the Ministry of Finance, faces in managing the process. According to some, only about ten people at the Ministry of Finance possess the technical capacity needed to work effectively with the donors, but the growing use of general budget support means a greater number of reform efforts are becoming the *de facto* responsibility of the Ministry of Finance since it is the main interlocutor with PRBS/PRSC donors, further straining capacity.<sup>17,18</sup> As will be discussed, this may not be an

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<sup>16</sup> This may become more important if USAID is asked to assist countries that do not qualify for funds from the Millennium Challenge Account (MCA) in ways that improve their chances of qualifying in future years. Two of the indicators used to determine country eligibility for MCA funds relate to sectoral allocations of public expenditure, and general budget support may be a tool for influencing such allocations.

<sup>17</sup> "When donor funds flow directly to the exchequer, sector ministries have less of an incentive to aggressively work towards the requirements of release of funds from donors; finding and getting resources then is a 'problem' of [the Ministry of Finance] and not of the sector ministries" (World Bank 2003a, p. 88).

entirely negative development; it nevertheless presents a challenge. Nor are the capacity constraints solely on the side of the Government. Donors, too, have their own difficulties in substantively engaging in the policy dialogue. A general budget support arrangement requires different skills on the part of donor staff – skills in policy analysis and development; facilitation, dialogue, and negotiation; public financial management; identification of capacity constraints; etc. – than those that might be valued under a predominantly project-based mode of providing assistance. The UK has reorganized itself in light of this reality,<sup>19</sup> but few other PRBS donors seem to have the staff necessary to adequately track the processes related to the PRBS/PRSC.

### *Spending on PRS Priorities*

The Partnership Framework Memorandum notes that the Government budget is a primary instrument for implementing the PRS. Most PRBS/PRSC donors thus see the general budget support they provide to the Government as supportive of PRS objectives.<sup>20</sup> As such, PRBS/PRSC donors have closely watched the Government's allocation of budget resources to PRS priority sectors, which include: education (notably at primary school level), health (primary health care), agriculture (research and extension), roads (in the rural areas), water, the judiciary, and HIV/AIDS (URT 2000). However, according to World Bank (2003a), the Government's budget has repeatedly expanded the set of priority sectors, such that in FY04 they also include energy, lands, police, and prisons. This makes an analysis of trends in priority public expenditure more difficult. World Bank (2003a) examines the evolution of public expenditure in the original seven PRS priority sectors and a more narrowly defined set of priority sectors that, for example, considers only expenditure for basic education rather than all education expenditure.<sup>21</sup> The first finding was that real per capita expenditure on priority sectors, both broadly and narrowly defined, steadily increased between FY99 and FY03, and these trends are projected to continue. However, it was not possible to conclude these were the results of Government efforts to shift expenditure from non-priority sectors to priority sectors or from broadly defined priority sectors to more narrowly defined priorities within the priority sectors. Due to additional resources made available to the Government over the period, it has not had to reprioritize expenditures to maintain the positive trends.

A second finding was that priority-sector expenditure has not consistently grown faster than expenditure in non-priority sectors. This seems to contradict the intention of the PRS, which states that "expenditure allocations for the 'core' sectors are expected to increase significantly when compared to allocations for other sectors" (URT 2000, p. 23). In fact, this was a major issue during the 2003 budget review, as it was thought that year-on-year expenditure increases between FY03 and FY04 in several non-priority sectors, including defense, would be larger than the overall increase in priority-sector expenditure. The share of expenditure allocated

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<sup>18</sup> Some donors feel line ministries should be actively engaged in the policy dialogue surrounding the PRBS/PRSC. One interviewee noted that few actors outside the Ministry of Finance are aware of the PRBS/PRSC and its associated processes, such as the development of the PAF matrix.

<sup>19</sup> This is likely due to the fact that the UK provides the vast majority of its assistance through the PRBS. Sectoral specialists seem to concern themselves mainly with sectoral allocations of public expenditure and whether those allocations translate into improved service delivery.

<sup>20</sup> Of course, by definition, general budget support supports the overall expenditure program of the recipient government – not simply its developmental elements.

<sup>21</sup> Unless otherwise noted, what follows is derived from World Bank (2003a).



to priority sectors also seems to have fallen since FY02. Between FY00, the first year of PRS implementation, and FY02, the share of total expenditure allocated to priority sectors rose steadily, reaching 46.3 percent of the budget (PRBS and URT 2003). In FY03, the share dropped slightly to 45.6 percent of the budget. After accounting for some reallocations, it appears the share will effectively remain constant at 45.9 percent of the budget in FY04 (PRBS and URT 2003).<sup>22</sup> While this is troubling for some PRBS donors and certain line ministries, others feel 45 percent may be, in effect, a “saturation point” and are content to note that a constant share in the context of a growing overall budget translates into higher absolute levels of expenditure in priority sectors.

Finally, it was found that in FY02, the Government spent more on the priority sectors than it received in ODA, which suggests overall ODA is not implicitly financing expenditures outside of the priority sectors. This was not the case in previous years, when ODA was larger than expenditure on priority sectors as a share of GDP.<sup>23</sup> A slightly more troubling picture emerges, however, when only flexible aid resources are considered. While recurrent expenditure in priority sectors increased between FY00 and FY02, the increase in flexible aid provided to the Government was nevertheless higher for each of the three years. In other words, a portion of the flexible aid provided by donors has effectively financed recurrent expenditure in non-priority sectors. It is difficult to ascertain whether the same was true in FY03 and is projected to be true in FY04, but this finding has led some donors to believe that the PRBS/PRSC is not entirely additional to the Government’s budget allocations to priority sectors. Even those donors that argue the PRBS/PRSC is not directly funding non-priority sectors recognize that it provides the Government with significant flexibility in financing non-priority sectors.

It should be noted that there might be tensions between the donors’ desire to see greater shares of expenditure allocated to priority sectors and the application of principles of performance-based budgeting, which, according to Ronsholt (2003), is quite weak in Tanzania. This tension becomes most evident if a priority line ministry suffers from weak performance. For example, while health is considered a PRS priority sector, the Annual Reports of the Controller Auditor General, now known as the National Audit Office (NAO), for FY98 through FY00 found that 44.3, 72.3, and 53.1 percent, respectively, of the Ministry of Health budget went unaccounted for (ESRF and FACEIT 2002).<sup>24</sup> In such cases, donor pressure to allocate additional resources to priority sectors may undermine one of the main reasons for providing assistance as general budget support – reinforcing accountability relationships between line ministries and the Ministry of Finance.

### *Tracking Public Expenditure*

The effectiveness of general budget support will primarily be judged on the basis of service delivery outcomes in sectors that are thought to be most closely associated with poverty

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<sup>22</sup> At the time of writing, there was some doubt that the planned reallocations would take place (personal e-mail communication).

<sup>23</sup> However, ODA is significantly larger than expenditure on the narrowly defined set of priority sectors.

<sup>24</sup> Of eight ministries surveyed, the Ministry of Health was by far the worst in terms of not being able to account for significant shares of its budget. However, other ministries also were not able to account for non-trivial portions of their budgets.

reduction. The previous section explored the extent to which public expenditure is allocated to these sectors. This section will examine whether funds are making their way from the central level to the local level, the point at which service delivery takes place. A Local Government Reform Program (LGRP) was initiated in Tanzania in 1999 and aims to decentralize a great deal of authority over and responsibility for service delivery to local government authorities (LGAs) at the district level. LGAs receive the vast majority of their resources through what might be described as a “ministry of decentralization,” the President’s Office – Regional Administration and Local Government (PO-RALG), in the form of conditional transfers.<sup>25</sup> Line ministries are able to influence the level of resources applied to their sectors at the local level during annual budget negotiations but with few exceptions do not allocate portions of their budgets to LGAs.

It is difficult to reconcile the impressions of the interviewees regarding the extent to which resources are making their way to the local level, perhaps because there are at least three separate issues that should be considered.<sup>26</sup> First, is the mix between resources allocated to the center and resources allocated to LGAs appropriate? Some feel there is a tendency for funds to remain at the central level, and World Bank (2003a) notes that the budgeted increase in recurrent expenditure between FY02 and FY03 accrued mainly to the central Government while allocations to regions and districts were expected to remain stagnant. Boex (2003), on the other hand, argues that Tanzania has already achieved a significant amount of decentralization. What is clear is that to date no effort has been made to cost the responsibilities of the various layers of government. Such an analysis might at least provide a baseline for the share of resources that should remain at the center and the share that should be made available to LGAs for service delivery. Second, are those resources allocated for LGA use actually making their way to the appropriate LGAs? Several interviewees felt this was happening, though perhaps at a slow pace. At the very least, districts are more aware of what levels of resources they should be receiving as a result of the routine practice of publicizing central transfers to LGAs in the media. Third, are the funds that reach the local level used for their intended purposes? When the research for this paper was conducted, a couple of donors had recently visited several districts to perform a “reality check.” They found that large portions of the districts’ budgets were spent on cars, copy machines, per diems for travel and training, etc. – in other words, items that may be useful for building the capacity to deliver services but not service delivery itself.

Without a deeper analysis on which to draw, it is difficult to say whether the mix between resources allocated to the center and those allocated to LGAs is appropriate. However, the second and third issues can be explored in more detail through public expenditure tracking surveys (PETSs), and Sundet (2003) reviews Tanzania’s experience with PETSs. The first PETS was conducted in 1999, prior to the implementation of the PRS, and it covered three districts;

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<sup>25</sup> The central government effectively earmarks the transfers for use in priority sectors, replicating the rigidity in resource allocation that many developing-country governments experience when donors earmark assistance. LGAs are therefore less able to respond to the unique circumstances and needs of their districts, and the result is less adequate, efficient, and equitable service delivery (Boex 2003). However, PO-RALG intends to move toward a system of block grants in the future.

<sup>26</sup> A fourth issue that was not considered during the interviews but is nevertheless extremely important is the system for allocating resources destined for the local level among LGAs. Boex (2003) finds evidence of pro-wealthy and pro-urban biases in central government allocations to LGAs. As part of the LGRP, PO-RALG is considering new approaches for allocating resources among LGAs that would be more consistent with pro-poor and pro-rural policies set forth in the PRS.

three financial years; and two sectors, education and health. It found that 57 percent of non-salary expenditure in the education sector and 88 percent of non-salary expenditure in the health sector were diverted. In other words, only 43 percent of funds intended for district schools and 12 percent of funds intended for hospitals, dispensaries, and health stations actually arrived. A second PETS was undertaken in 2001 in the context of the PER and covered five districts; FY00 and the first half of FY01; and four sectors, primary education, primary health care, water, and rural roads. A key finding was that district councils tended to underreport receipts of funds intended for non-salary expenditure. Consistent with the 1999 PETS, the study also found that “considerably less than 50 percent of funds were spent on activities that benefited the service delivery stations, including items such as exams and school material, training, and medical supplies and equipment” (Sundet 2003, p. 12). The decision to publish the amounts and intended uses of transfers from the center to the local level in the media was made by the Ministry of Finance following the completion of the 2001 PETS, though Sundet (2003) laments that this has not led to a sustained debate on issues of transparency and accountability for service delivery in Tanzania.<sup>27</sup>

A “pilot” PETS of the Primary Education Development Programme (PEDP) was undertaken in early 2003 to inform a more detailed PETS of the entire education sector.<sup>28</sup> It examined 15 primary schools in six districts. In contrast to the previous PETSs, the PEDP PETS found that leakage of those funds that were part of the “capitation grant” was minimal, with 95 percent reaching the schools for which they were intended. However, Sundet (2003) believes this finding is particular to the capitation grant of PEDP, which is deposited into special bank accounts for schools, and is not likely to be representative of the majority of funds transferred to the local level, even those earmarked for the education sector. In spite of its positive finding, the PETS nevertheless suggests that leakage of funds may be taking place at the level of the schools rather than the districts, as the previous PETSs found. In addition, many schools apparently continue to charge parents for basic school supplies even though primary education fees were abolished in FY02.

### *Capacity Constraints and Corruption*

The previous section suggested that it is very difficult to know how much public expenditure actually makes its way to the intended beneficiaries. This section explores a couple of possible reasons for this, namely capacity constraints and corruption, both of which are widely recognized as prevalent in Tanzania. A typical reaction to the previously cited figures on unaccountable shares of the Ministry of Health’s budget and some of the findings of the PETSs is that such funds must be getting stolen. This is not necessarily the case; rather, the findings

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<sup>27</sup> This contrasts with the experience with PETSs in Uganda, where it was originally discovered that only an average of 13 percent of the annual capitation grants allocated to primary schools reached their intended destinations. In response, the Government published the amount of transfers from the center to the local level in the media, mandated the posting of transfer information at schools and district offices, and undertook to train school committees on the use of the information in order to hold local authorities accountable for the funds. When the PETS was repeated, it was found that 80 to 90 percent of the funds intended for primary schools were received. For further information and additional references, see Reinikka and Svensson (2002).

<sup>28</sup> The PETS of the education sector was supposed to have been completed by the November 2003 PRBS/PRSC annual review. Unfortunately, it was delayed until March 2004. It is also worth noting that a non-priority sector PETS will be undertaken as part of the FY04 PER.

may reflect limited application of sound accounting practices, such as the use of double-entry bookkeeping, maintaining complete records of transactions, producing financial statements in a timely fashion, etc. As ESRF and FACEIT (2002) note, however, such problems certainly provide opportunities for embezzlement and corruption. Enhancing the ability of the Government to track public expenditure is therefore a high priority for PRBS/PRSC donors. The PAF includes several actions related to the implementation of an IFMS throughout the Government. Problems have been encountered in rolling out the IFMS to the local level (PRBS and URT 2002) and the NAO (PRBS and URT 2003). Not coincidentally, both are recognized to suffer from the greatest capacity constraints (See World Bank 2002, 2003a). One interviewee guessed that maybe only a quarter of LGAs have adequate financial capacity. The NAO suffers from weak retention of qualified staff, which, once trained, are able to obtain better remuneration in the private sector or with international organizations.

The existence of widespread capacity constraints does not mean corruption is not a problem in Tanzania. On the contrary, Tanzania is unlikely to benefit from funds from the Millennium Challenge Account precisely because it does poorly relative to other low-income countries in terms of controlling corruption (Frantz 2003). ESRF and FACEIT (2002) report that 80 percent of respondents to a survey on the state of corruption in Tanzania experienced corruption directly or indirectly. The health sector was judged to suffer the most from corruption, perhaps because health services are sought by large shares of the population. Corruption in the health sector often takes the form of bribes for services or medicines that are supposed to be entitlements. Respondents also cited corruption in the police force, business licensing authorities, judiciary, tax authorities, education sector, and public utilities, and the report found that bribery and corruption were prevalent at all stages of the Government procurement process. While the Government has embarked on a well publicized anti-corruption campaign – it has developed a National Anti-Corruption Strategy and Action Plans, and ministries are expected to report on a quarterly basis on progress made in their anti-corruption efforts to a Good Governance Coordination Unit – prosecution of corruption cases remains extremely slow. A majority of Tanzanians believe corruption continues to worsen (REPOA 2003).

All donors providing general budget support recognize the twin weaknesses of capacity constraints and corruption in Tanzania, but neither is really seen as a prohibiting factor. In fact, some see general budget support as the best approach for dealing with both. As is often argued, general budget support forces the Government to utilize whatever existing capacity it has and further challenges it to strengthen its capacity to manage resources in ways that are acceptable to donors.<sup>29</sup> With respect to corruption, several donors believe general budget support offers helpful insights into where leakages in the system are occurring and provides the forum for working with the Government to plug the holes. The PAF contains a number of actions related to the control of corruption, but these have been difficult to monitor in the absence of an institutionalized dialogue between the Government and donors on anti-corruption issues (PRBS and URT 2003). As part of the November 2003 review, PRBS/PRSC donors insisted that such a

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<sup>29</sup> An analysis of 24 Heavily Indebted Poor Countries' abilities to track poverty-reducing public spending revealed that Tanzania does reasonably well compared with some of its peers. Of 15 benchmarks used to assess the quality of public expenditure management systems, Tanzania met eight, whereas the average number of benchmarks met was six. See IMF and IDA (2002).

forum be created. However, as Cooksey (2002) notes, it is not entirely clear that increased donor pressure will have a great deal of impact on corruption.<sup>30</sup> But even those donors that are more skeptical that corruption can be effectively addressed through donor pressure do not seem to believe that the increasing use of general budget support has been associated with more leakages.

### *Strengthened Democracy*

The previously cited analytical framework developed by EuropeAid and ODI (2003) to evaluate the effectiveness of general budget support posits that democracy will be strengthened as an intermediate outcome of increasingly providing assistance as general budget support. A more open and transparent budget process should provide the Parliament with greater scope for exercising its oversight responsibilities and influencing the budget in accordance with the preferences of its constituencies, with concomitant improvements in service delivery. In Tanzania, it is widely agreed that this has not happened. Even those most convinced of the advantages of providing assistance as general budget support admit that Parliament's participation in the budget process has not improved as a result. A relatively benign reason that this might be the case is that Parliament, like most institutions in Tanzania, simply lacks the capacity to play its proper role. Such a view would suggest that upgrading of MPs' skills to analyze policy and engage in the budget process is important to the effective use of public resources, including general budget support. The same argument could be made about the role of civil society, particularly local NGOs, in holding the Government accountable. Indeed, those elements of civil society that have been able to take advantage of, for example, the opening provided by the PER process tend to be larger, international NGOs.

An alternative reason general budget support has not contributed to strengthening democracy in Tanzania might have to do with the nature of democracy itself. Whereas the laws and institutions for formal, multi-party democracy exist, Tanzania remains, fundamentally, a one-party state. According to Gould and Ojanen (2003) and Cooksey (2003), the state is dominated by a complex web of patronage networks, which virtually ensures the interests of ordinary Tanzanians are marginalized in the pursuit of rent-seeking opportunities. Proponents of this view see relatively little hope that Parliament will willingly exercise its role in restraining the executive. Likewise, the prevalence of "straddlers" (Cooksey 2003) and the subordination of the most influential elements of civil society to a policy partnership with the Government and donors based on generally mainstream views (Gould and Ojanen 2003) limit the likelihood that civil society will play its role of change agent.<sup>31</sup> Far from strengthening democracy, then, general budget support, or any assistance provided to the Government for that matter, actually is a drag on democratic progress.<sup>32</sup> It is difficult to say which interpretation is more accurate, but it

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<sup>30</sup> Hanlon (2002) charged that donors providing general budget support in Mozambique were actually supporting corruption. Cooksey (2003) makes a similar argument regarding all forms of aid in Tanzania.

<sup>31</sup> "Straddling" means having a foot (or a hand) in different sectors, or moving rapidly from one to another. For example, senior civil servants become politicians, politicians join the private sector, their wives run donor-funded NGOs ... (Cooksey 2003, p. 10)

<sup>32</sup> Gould and Ojanen (2003) are critical of the entire PRS process in Tanzania, arguing that "consultation" with the poor – or, more accurately, their self-proclaimed representatives – has bypassed, and thus undermined, nascent structures of representative democracy. They also argue that consultation with elements of civil society that have dubious links to Tanzania's poor has had the effect of legitimizing policies that may not be entirely in the interest of

is generally agreed that the executive continues to feel relatively little pressure from Parliament and civil society, and general budget support has not resulted in strengthened democracy in Tanzania.

### *Sustainability*

There are two aspects of sustainability that are important to consider in light of the increasing use of general budget support. The first is economic growth since it is recognized that growth is a *sine qua non* for poverty reduction (URT 2000). To what extent does general budget support in Tanzania support a growing economy? The second, which depends to some extent on progress on the first, is the tax effort. Is general budget support improving the Government's ability to generate the revenue needed to finance public expenditure on poverty-reducing measures? It is clear that Tanzania's economic performance in recent years has been impressive, particularly relative to most of sub-Saharan Africa. In the last five years, growth has averaged more than five percent, and in 2002, it registered 6.2 percent in real terms. Inflation has also remained low. The PAF contains a number of actions that seek to ensure the maintenance of macro-economic stability, and the Government's progress in these areas was deemed to be satisfactory following the November 2003 PRBS/PRSC annual review (PRBS and URT 2003). The main concern about Tanzania's growth performance is that it has not resulted in much poverty reduction. Growth has been strongest in the capital city, where poverty is least prevalent, and those sectors that have limited employment-generating effects, such as mining and tourism. But it has not touched rural areas and the agriculture sector, from which a large majority of Tanzanians derive their livelihoods, to the same extent (URT 2002b).<sup>33</sup>

Ensuring that the benefits of growth reach more Tanzanians requires that certain structural barriers to private sector development be addressed (IMF 2003; see also Moshi 2003). Although the EuropeAid and ODI (2003) analytical framework posits that an improved investment climate will be an intermediate outcome of greater use of general budget support, experience suggests this is unlikely (see Harvey 2002 for a case study of Mozambique). The reason is that donors involved in a general budget support arrangement are usually primarily concerned with tracking the use of public resources – and for obvious reasons. However, an unintentional consequence can be that issues that should be addressed in the policy dialogue surrounding the provision of general budget support, but are only indirectly related to the use of public resources, are given lower priority. While several donors believe this is the case in Tanzania, the PAF includes numerous measures that are intended to improve the enabling environment for business, suggesting that private sector development is a key topic in the policy dialogue.<sup>34</sup> However, it is questionable whether some of the PAF actions in this area can actually be expected to have much effect on private sector development. Many of the actions

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the poor. The basic point is that “consultation” is, in fact, a poor substitute for genuinely democratic political processes.

<sup>33</sup> Part of the problem may be due to Dutch disease effects resulting from the large amounts of aid flowing into the country. While the real exchange rate has depreciated in recent years, it remains overvalued, thereby dampening the incentive for agricultural producers to export their products. The solution to this problem lays in expending public resources on investments that improve the profitability of exporting. For a more detailed discussion, see Booth and Kweka (2004).

<sup>34</sup> Indeed, donors expect the next version of the PRS, which is due to be completed this year, to place greater emphasis on private sector development.

emphasize the development of laws, strategies, and plans, and their links to medium-term outcomes are dubious in the absence of strong efforts to enforce and implement them and build the capacity of enforcement and implementation entities, as well as that of the private sector itself.<sup>35,36</sup>

A second aspect of sustainability is the ability to finance public expenditure from locally generate revenue rather than through large infusions of external assistance. Tanzania is very much dependent on foreign aid. External assistance accounted for 5.9 percent of GDP in FY02 and was projected to reach 7.9 percent of GDP in FY03 (World Bank 2003a). In FY03, aid accounted for 45 percent of the Government's total budget – 87 percent of the development budget and 24 percent of the recurrent budget (URT 2003b). At the same time, Tanzania's tax effort, measured by revenue as a share of GDP, is one of the lowest in sub-Saharan Africa (Fjeldstad and Rakner 2003). Despite meeting IMF revenue targets in recent years, tax revenue only stands at approximately 12 percent of GDP (IMF 2003). Consistent with the arguments of Bräutigam (2000) and Moore (2000), several donors in Tanzania argue that the high levels of aid are dampening the incentives for the Government to further develop its own revenue sources.<sup>37</sup> Tax policy touches on a number of complicated issues, and, as Fjeldstad and Rakner (2003) note, focusing too heavily on raising the revenue-to-GDP ratio can have corrosive consequences on state-society relations without attacking the main reasons for poor tax compliance – poor quality of services, corruption, mismanagement, and waste in the case of Tanzania (NGO Policy Forum). It is also not obvious what the appropriate balance is between generating revenue and providing strong incentives for private investment. In the context of a growing economy, a constant revenue-to-GDP ratio can still finance increasingly ambitious targets for service delivery. Nevertheless, the PAF includes a few rather sensible actions related to broadening the tax base and simplifying the tax system. These focus on limiting tax exemptions, eliminating a number of “nuisance taxes” at the local level, and harmonizing the local tax system with the national system.

### *Predictability*

Given Tanzania's high level of dependency on aid, the predictability of aid disbursements affects the Government's ability to budget and plan sensibly. It is arguably even more important for disbursements of general budget support to be predictable since they finance the Government's recurrent budget. However, general budget support, particularly when provided by bilateral donors, may be more prone to unpredictability than other aid instruments because it is easier to hold up disbursements in the face of changing political circumstances. An explicit goal of the Partnership Framework then is to improve the predictability of donor flows to the

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<sup>35</sup> Cooksey (2003) argues that some of these strategies, particularly in the agriculture sector, are completely misguided. He notes that “private investment in agriculture is as important as official investment, yet government and donors are fixated with state-sponsored investments, including major donor initiatives” (p. 4) and believes “aid donors undermine the emergence of a viable agricultural development policy by empowering central and local government officials who cannot be held accountable for their deeds and misdeeds, further distorting markets and discouraging private investment and enterprise” (p. 5).

<sup>36</sup> Several donors noted that the Tanzanian private sector faces just as many capacity constraints as the Government and is equally prone to corrupt practices. On the capacity constraints of the private sector, see Moshi (2003); on corruption within the private sector, see Mwenda (2003) and Cooksey (2003).

<sup>37</sup> Both authors argue that this reduces the incentives for the state to remain accountable to its citizens.

Government. To do so, PRBS/PRSC donors have endeavored to, first, sanction the Government for poor performance in the current fiscal year with a reduction in budget support in the subsequent fiscal year and, second, disburse budget support as early as possible in Tanzania's fiscal year. Perhaps as a result of these measures, World Bank (2003a) found that, in recent years, budget support to Tanzania is less variable than project aid. However, while there have been a few minor incidents that threatened to hold up disbursements of general budget support by individual donors,<sup>38</sup> the arrangement has not yet been tested by a major event that might cause a majority of donors to withhold general budget support. With Presidential elections scheduled for 2005, a repetition of the violence that took place in Zanzibar during the 2000 election might be just such an event.

### *Transaction Costs*

Another objective often sought through the increased provision of aid as general budget support and an explicit aim of the Partnership Framework is the reduction of transaction costs of aid. As Killick (2004) has argued, however, there is little evidence that providing greater shares of assistance as budget support significantly reduces transaction costs. In Tanzania, most PRBS/PRSC donors do not believe transaction costs have fallen, neither for the Government nor for the donors. Some even think transaction costs may have risen in the short-term. Most are nevertheless hopeful that they will fall over the medium-term as the various processes surrounding the provision of general budget support improve. On the side of the Government, transaction costs have most clearly risen for the Ministry of Finance, whose capacity is being stretched by the *de facto* responsibilities it has for a number of reform programs throughout the Government that are of interest to PRBS/PRSC donors. For their part, the donors have experienced the challenges associated with engaging in policy dialogue with the Government and each other and monitoring the numerous activities taking place that are expected to translate into the effective use of general budget support. In spite of the difficulties involved, it is not clear that either of these is a negative outcome. Strengthening internal lines of accountability requires that the Ministry of Finance assume a great deal more responsibility given its role in the budget allocation process. Likewise, if donors are providing assistance as general budget support, they should be concerned with the full range of activities that affects whether their input contributes to reductions in poverty. This suggests that it is likely less important to lighten the burdens associated with the PRBS/PRSC arrangement and more important to build the capacities of both the Government and donors to handle their respective responsibilities under this new arrangement.

### *Results to Date*

When asked about specific results to date, most donors point to PAF actions that have been completed.<sup>39</sup> As such, the vast majority of results donors attribute to the influence of general budget support involve improvements to the Government's budget and planning

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<sup>38</sup> For example, the UK withheld £10 million from its FY02 disbursement when it was disclosed that the Government intended to purchase a \$40 million air traffic control system designed for military use.

<sup>39</sup> It should be noted that the assessment of progress by donors during the November 2003 PRBS/PRSC annual review was only "moderately satisfactory." A number of actions that were expected to have been completed by the time of the review were not, the most glaring of which was the absence of the PRS Progress Report.



processes. This is what one should have expected since the PRBS/PRSC experiment is only a few years old. Indeed, it probably would have been unreasonable to expect to have found significant reductions in poverty at such an early stage in the reform process. Nevertheless, some donors supported the EC's decision to disburse a portion of its general budget support against progress on a subset of the outcome and impact indicators in the PAF in FY06. Even if there remains disagreement about the speed at which donors should move toward a disbursement model similar to that of the EC, most donors agree that eventually the PRBS/PRSC arrangement should focus more heavily on concrete improvements in the lives of Tanzanians rather than process measures. Thus far, the greatest success Tanzania has achieved since PRS implementation began was surpassing its targets for primary school enrollment. Enrollment grew from 4.4 million to 6.6 million between 2000 and 2003, and both net and gross enrollment rates rose by approximately 30 percentage points (URT 2003c).<sup>40</sup> For general budget support to remain politically palatable to donors, a great deal more will have to be achieved over the next three to five years.

### What General Budget Support Misses

The above rough assessment of general budget support in Tanzania suggests that very few of the positive effects often attributed to general budget support actually result from the provision of general budget support *per se*. That is, few of the benefits that are frequently ascribed to general budget support are automatic, which was a key conclusion of OPM and ODI (2002) as well. Rather, many of them result from the conscious efforts of donors and governments to include discussion of certain key topics in the policy dialogue.<sup>41</sup> Others, such as the enhanced predictability of aid disbursements, may present greater challenges to those involved, and thus require stronger efforts, as a result of the choice to use general budget support over other aid instruments. Still others, such as strengthening democratic accountability, are unlikely to result at all and may in fact be endangered as a result of the decision to use general budget support, depending on the context in which it is provided. Finally, some, such as reduced transaction costs as commonly depicted, may not be desirable aims of general budget support in the first place. In my view, what one can reasonably expect general budget support to achieve – and even what one might want it to achieve – needs to be reconsidered. There is no doubt that a role for general budget support exists, but it is also clear that it misses a great deal and will require complementary investments, likely in the form of other aid modalities, to be an effective instrument for poverty reduction. While most donors in Tanzania recognize this, it is difficult to avoid the impression that these same donors continue to believe that budget support is a “preferred” or more “progressive” aid instrument.

### *Demand for Services*

Perhaps the clearest advantage of general budget support over other aid modalities is that it does not hinder the accountability relationships that should exist between budget allocation

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<sup>40</sup> Preliminary indications also suggest that completion rates may be improving. On 10 December 2003, the *Daily News* reported that the percentage of students passing Standard VII examinations rose from 22 percent in 2002 to 40.1 percent in 2003.

<sup>41</sup> It is true that the provision of general budget support may allow donors to influence discussion of certain issues over which they might have had little influence without providing general budget support.

authorities and authorities to which public resources are allocated. By limiting access to extra-budgetary finance, assistance in the form of general budget support reinforces budget discipline within a recipient government, and this appears to be happening in Tanzania with greater shares of assistance provided as general budget support. But effective service delivery, one of the ultimate aims of general budget support, requires that a web of accountability relationships be strengthened – not simply those within a recipient government. General budget support reinforces what Pritchett and Woolcock (2004) call the “needs/supply/civil service” response to the observed absence of key services in developing countries. That is, “need” is the problem, “supply” is the solution, and the “civil service” is the vehicle for implementation. Unfortunately, as the authors note, this approach to service delivery has proven “so seductive to governments (and donors) alike that it has taken decades of painful and expensive failures in sector after sector to see that the problem is not just a few mistakes here and there, but that as an approach to development, it can be fundamentally wrong-headed from top to bottom” (p. 199). These failures, they argue, are the direct consequence of “the lack of feedback mechanisms and modes for engagement of citizens in either controlling the state or directly controlling providers” (p. 199).

Pritchett’s and Woolcock’s (2004) point of departure is to distinguish between the levels of discretion and “transaction intensiveness” involved in public sector activities. Discretion refers to the extent to which an activity requires extensive professional or context-specific knowledge – i.e., judgment. Transaction intensiveness refers to the number of transactions required to undertake an activity. The authors refer to activities that are discretionary but not transaction intensive as “policies” – e.g., lowering tariffs. Activities that involve many transactions but require relatively little discretion, and therefore can be mechanized to a large degree, are “programs” – e.g., administering vaccinations. However, many services that ultimately affect outcomes and contribute to poverty reduction – classroom teaching, curative health care, allocation of water flows, etc. – are discretionary and transaction-intensive, what the authors define as “practices,” and their successful delivery is extremely difficult to replicate. “The provision of key, discretionary, transaction-intensive services through the public sector is the mother of all institutional and organizational design problems ... Multiple levels of interaction must be addressed simultaneously: between citizens and the government, between government and agencies, between agencies and its employees/contractors (the providers), and between citizens and providers, and public authorities” (Pritchett and Woolcock 2004, p. 196).<sup>42</sup> While general budget support may have a positive effect on the relationships between government and agencies and, perhaps more optimistically, the relationships between agencies and its employees/contractors, it cannot reasonably be expected to improve the relationships between citizens and government and between citizens and providers.

Pritchett and Woolcock (2004) catalogue eight alternatives to the failed “need/supply/civil service” approach to service delivery that have been tried in recent years. They are careful to note that each approach has advantages and disadvantages – none is inherently “better” than the others. But all of the approaches endeavor to enhance the responsiveness of service delivery to citizen preferences. In other words, they seek to address the “demand side” of service delivery. A recent survey on citizen satisfaction with service delivery in PRS priority sectors in Tanzania revealed that a vast majority of Tanzanians are

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<sup>42</sup> Pritchett and Woolcock (2004) provide the analytical foundation for World Bank (2003b)

dissatisfied with the quality of the services available to them (REPOA 2003).<sup>43</sup> Sundet (2003) suggests that the key reason for the survey's findings is that Tanzanians are not sufficiently empowered to hold their Government and service providers accountable. What then can donors do? According to Kaufmann (2003, p. 22), "focusing more on parliamentary, NGO, and citizen oversight is crucial, as is the transparent use of new tools such as citizen scorecards; diagnostics based on survey reports from public officials, public-service users, and firms; and tools to track public expenditures in detail ... Where it has not been captured by monopolistic state's or elite's vested interests, the media can play a key role in pro-transparency governance reforms." It is highly questionable that much, or any, of this is best supported through the instrument of general budget support.

### *Capacity Building*

A second advantage of general budget support over other aid modalities is that it more effectively draws on governments' existing budgeting and planning capacities and can have the effect of strengthening those capacities as a result of learning-by-doing effects. But in Tanzania it is widely recognized that most actors – the Parliament, NGOs, the private sector, research organizations, the media, etc. – suffer from serious capacity constraints. As has been argued, the effectiveness of service delivery will depend to a great extent on these actors being able to play their appropriate roles in holding the Government accountable, disseminating accurate information to citizens, engaging in informed policy debate, and contributing to a growing economy that helps deliver sustainable benefits to Tanzanians. General budget support offers little assistance to these entities for strengthening their capacities. In addition, it is likely that there are limits to the capacity building effects of general budget support within the Government. For example, general budget support requires that line ministries develop greater technical capacity to more effectively make their cases to the Ministry of Finance for budget allocations since they lose access to extra-budgetary finance. Technical assistance can help in this regard. Even when it comes to improving public expenditure management – perhaps the most automatic benefit arising from providing assistance as general budget support – technical assistance is often needed.<sup>44</sup> The point is not that general budget support is an inappropriate instrument for aid delivery, but rather that it requires various forms of complementary investments to deliver the kinds of benefits to which it aspires.

### Conclusions

It was not the intention of this paper to paint an overly negative picture of the environment for general budget support in Tanzania. Tanzania has made significant progress since abandoning its single-party socialist system, and no less reliable of a source than *The Economist* (2004) recently endorsed the Government's reform efforts. Indeed, it is one of a very few number of relatively bright spots in sub-Saharan Africa. However, my contention is that donors have been a bit too exuberant in providing the Government with large amounts of

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<sup>43</sup> One of the survey's unexplained puzzles is that a majority of Tanzanians are nevertheless satisfied with the performance of their Government, from the President down to the level of LGAs.

<sup>44</sup> Bellows and Dowswell (2002) suggest that technical assistance might be more effective if it is provided by donors which themselves do not provide budget support. This would prevent governments from believing that budget support is conditioned upon the adoption of the recommendations provided through the technical assistance.

extremely flexible aid in light of the significant capacity and governance challenges that still confront Tanzania. What is needed is a rebalancing of aid away from the Government toward other elements of Tanzanian society. Several interviewees made the point that as Tanzanian society has become increasingly open, aid has increasingly been focused on the central Government. Of course, one should not overlook the disbursement pressures that donors face and the general interest of the aid community in an African “success story” as factors contributing to the current state of affairs.<sup>45</sup> But it seems donors in Tanzania could do more to coordinate with each other to determine what an “appropriate” total amount of general budget support might be.<sup>46</sup> Currently, it does not appear that donors consider the amounts of general budget support being provided by others when making their commitments. Whereas one donor’s contribution may not threaten to overwhelm the capacity of the Government or unduly emphasize it over other elements of Tanzanian society, the totality of resources being provided to the Government might just do so.

None of this amounts to an indictment of general budget support in and of itself. Indeed, there is a strong case to be made for the bulk of assistance that is intended to support governments to be provided as general budget support. Clearly, the risks of using general budget support are many, but they must be compared with the long-term risks of developing systems that are parallel to those of government.<sup>47</sup> Too often, general budget support is dismissed as an inferior approach to aid delivery without comparison to an appropriate counterfactual: would the same amount of aid delivered in the form of projects, through a basket, or as sector -earmarked budget support have achieved better, more sustainable results? The strongest argument in favor of general budget support is that it strengthens the accountability relationships that should exist among the various elements of the recipient government. Rather than being accountable to donors that may have previously funded them directly, line ministries are forced to be accountable to their Ministries of Finance when assistance is provided as general budget support. However, it is also the case that a variety of complementary investments are needed for general budget support to contribute to the achievement of its ultimate objective of poverty reduction. General budget support should not necessarily be seen as a substitute for other aid modalities, particularly if donors endeavor to improve the accountability relationships between citizens and government and between citizens and service providers, or strengthen the capacities of various elements of a recipient country’s society.

In Tanzania, USAID’s comparative advantage probably lays in providing assistance that is complementary to the general budget support provided by other donors. However, this does not mean that the policy dialogue taking place around the PRBS/PRSC facility should not be important to USAID.<sup>48</sup> The results to which USAID aims to contribute in each of its strategic

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<sup>45</sup> Some argue there is a strong element of “mutual dependency” in Tanzania between the Government and donors. The Government, of course, depends on large amounts of external assistance to function properly, but donors depend on a selected number of African “success stories” to argue for additional aid resources at home.

<sup>46</sup> The difficulty of doing so cannot be underestimated, however. Each donor is likely to have its own view of what an “appropriate” balance is between aid directed to the Government and aid directed to other elements of Tanzanian society. This may be a topic for discussion among those donors considering a joint country assistance strategy.

<sup>47</sup> In my view, achieving sustainable benefits with aid requires that donors always be prepared to undertake a little bit more risk than they may be comfortable with.

<sup>48</sup> It is not clear whether USAID participation in – or observance of – the policy dialogue between PRBS/PRSC donors and the Government would require a contribution to the PRBS facility. As previously noted, the policy

objective areas will surely depend to a great extent on implementation of the systemic reforms that are supported through the PRBS/PRSC facility – e.g., financial management reform, implementation of the Local Government Reform Program, development of an environment conducive to private investment, etc. Second, it is important that consistency is ensured between PRBS/PRSC benchmarks, as set out in the PAF, and progress made in the context of sector working groups, especially those of priority interest to USAID. This is certainly the intention, but some donors admit that further work is needed to better align the PRBS/PRSC with the sector review processes. Third, by virtue of its field presence, USAID serves as the “eyes and ears” on the ground for the Department of Treasury and the U.S. Executive Director’s office at the World Bank when Bank operations come to its Board for approval. As such, USAID plays an important role in monitoring the current PRSC on behalf of the U.S. Government and recommending action on future PRSCs to Tanzania. Finally, as a recognized leader in the areas of anti-corruption, governance, and private sector development, USAID is in a position to make substantive contributions to the PAF as PRBS/PRSC donors seek to address such issues through their general budget support contributions.

dialogue is in principle open to all donors, regardless of whether they provide the Government with general budget support, but in practice key components of the dialogue are closed to non-participants. Odén and Tinnes (2003) argue that the policy dialogue should not exclude non-contributors.

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**Table 1:**  
**Budget Support Contributions by Donor**

(US\$ Millions)	FY02 Actual	FY03 Estimated	FY04 Projected
<b>Grants</b>	<b>188.8</b>	<b>301.4</b>	<b>335.5</b>
<i>Multilateral</i>	46.8	41.8	61.1
EC PRBS	33.0	41.8	29.1
EC grants for arrears clearance	13.8	0.0	0.0
World Bank	0.0	0.0	32.0
<i>Bilateral</i>	142.0	259.6	274.4
PRBS	106.0	151.0	163.4
Canada	0.1	1.0	2.0
Denmark	11.9	11.0	9.5
Finland	1.6	1.7	1.6
Germany	0.0	0.0	4.7
Ireland	0.0	14.2	8.9
Japan	4.2	4.0	0.0
Netherlands	14.4	15.3	15.5
Norway	11.3	13.7	13.7
Sweden	7.7	12.8	12.1
Switzerland	5.0	5.0	0.0
United Kingdom	49.8	72.3	95.4
Sector Baskets	36.0	108.6	111.0
Belgium	0.0	0.0	3.8
Canada	0.1	8.0	14.7
Denmark	7.7	6.7	9.4
EC	0.0	13.3	17.6
Finland	0.0	1.0	2.0
Germany	0.0	2.6	3.3
Ireland	2.7	9.6	7.9
Netherlands	1.2	34.1	26.4
Norway	4.5	6.8	9.6
Sweden	4.5	9.0	10.2
Switzerland	2.3	2.0	3.7
United Kingdom	13.0	15.5	0.0
Others	0.0	0.0	2.4
<b>Loans</b>	<b>92.2</b>	<b>162.5</b>	<b>179.6</b>
African Development Bank	0.0	25.0	25.0
World Bank	92.2	137.5	154.6
<b>Total Program Assistance</b>	<b>281.0</b>	<b>463.9</b>	<b>515.1</b>

Sources: IMF (2002, 2003)

**Annex 1:**  
**List of People Interviewed**

USAID/Tanzania

Derrick Brown, Controller  
John Dunlop, Population, Health, and Nutrition Officer  
Sean Hall, Democracy and Governance Officer  
Erin Holleran, Program Officer  
Ray Kirkland, Director  
Lisbeth Loughran, Health Sector Advisor  
Jimmy Msaki, Aid Program Assistant  
Onesmo Shuma, Private Sector Specialist  
Geir Sundet, Anti-Corruption Consultant (formerly UNDP)

Official Donors

Peter Maddens, Ambassador, Belgium  
Luke Myers, First Secretary for Development, Canada  
Jytte Laursen, Economic Advisor, Denmark  
Caroline Sergeant, Head of Office, DFID  
Axel Pougine de La Maisonnette, First Secretary for Economic Affairs, EC  
Hady Riad, Head of Division for Development Cooperation, Germany  
Gerard Considine, Regional Economic Advisor, Ireland  
Brendan McGrath, Head of Development, Ireland  
Mamoru Endo, Economic Cooperation Advisor, Japan  
Tatsuo Hirayama, First Secretary, Japan  
Hiroyuki Kinomoto, Deputy Resident Representative, JICA  
Romain Darbellay, Deputy Resident Coordinator, SDC  
Heinz Kaufmann, SECO (Headquarters)  
Monica Rubiolo, SECO (Headquarters)  
Ann Stöberg, Head of Development Cooperation, SIDA  
Robert Utz, Senior Economist, World Bank (Headquarters)  
Maximilian Mapunda, Health Economist, WHO (formerly Ministry of Health)

Government

Joseph Mallya, Outcome Manager, President's Office-Regional Administration & Local Government  
Michel Marion, Resident Advisor, Ministry of Finance (financed by IMF and SECO)

Non-Government

Haidiri Amani, Executive Director, Economic and Social Research Foundation  
Brian Cooksey, Director, Tanzania Development Research Group  
Mary Mwingira, Executive Director, Tanzania Association of Non-Governmental Organizations

## **Annex 2: Interview Questions**

### **1. Trends in the Use of GBS**

- a) What is the current breakdown of aid modalities you use? Why?
- b) Will you be moving to greater use of GBS in the future?
- c) When deciding how much GBS to provide, do you consider the amounts being provided by other donors?
- d) Have you taken aid away from certain sectors and channeled it as GBS?
- e) Have you reduced support to local governments or non-government entities and channeled it as GBS?

### **2. Objectives and Results of GBS**

- a) What objectives do you hope to achieve with GBS?
- b) What results have been achieved so far?
- c) Has anything been achieved at the impact level? If not, when do you expect to see results at the impact level?
- d) How do you report on the results of GBS to your headquarters and Parliament? What has been the reaction to this reporting?

### **3. Policy Dialogue**

- a) Has policy dialogue with the Government improved since the upward trend in donors' use of GBS began?
- b) What does policy dialogue consist of?
- c) Do donors that do not provide GBS miss out on important policy discussions as a result?
- d) Are there any advantages in terms of policy dialogue for donors that do not provide GBS (e.g., more freedom to raise sensitive issues such as corruption)?

### **4. Sustainability of GBS**

- a) How will GBS reduce aid dependency?
- b) How does GBS contribute to economic growth? Is there any tension between providing GBS and encouraging private sector-led growth?
- c) Have you noticed any negative macroeconomic effects as a result of increasing levels of GBS?
- d) Is GBS supporting efforts to raise domestic revenue collection?

### **5. Public Expenditure Management**

- a) Is the PRS a credible strategy for poverty reduction? In other words, does the PRS identify the "right" priorities?
- b) Are the PRS priorities being financed appropriately through the budget?

- c) How do you ensure that the GBS you provide is additional and is not replacing existing Government funding?
- d) What is happening with spending in non-priority and/or non-developmental areas?
- e) Has GBS allowed greater parliamentary oversight of and involvement in the budget process?
- f) Are funds making their way to the point at which service delivery takes place? If not, why not?
- g) Are there capacity constraints to improving financial management at any levels of Government? If so, how is GBS addressing them?
- h) What is your view of the current state of corruption? How does this affect your decision to use GBS?

#### 6. Predictability and Transaction Costs

- a) Is predictability of donor disbursements improving as a result of greater use of GBS? If so, has this improved the predictability of Government resource allocation?
- b) Do donors maintain separate bilateral agreements with the Government regarding their use of GBS? If so, do they use different disbursement criteria?
- c) What type of event might conceivably halt your use of GBS?
- d) Has the greater use of GBS lowered the transaction costs of aid for donors and the Government (e.g., staff time)?
- e) If not, is this a negative outcome, or have added transaction costs been the result of the Government taking more responsibility for processes for which it should be responsible (e.g., inter-agency dialogue over resource allocation)?

#### 7. Other Aid Modalities

- a) Can other aid modalities complement GBS?
- b) What types of non-GBS investments would make the GBS you provide more effective?