

CHAPTER 2

Monitoring Donor and IFI Support Behind Country-owned Poverty Reduction Strategies in the United Republic of Tanzania

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I Introduction

This chapter presents the first in the series of country reports prepared under the Commonwealth Secretariat project to monitor implementation of the Poverty Reduction Strategy (PRS) process in Commonwealth countries. This report on the United Republic of Tanzania was prepared jointly by David Peretz, an independent senior consultant to the Commonwealth Secretariat, and Professor Samuel Wangwe of the Economic and Social Research Foundation, Dar es Salaam, Tanzania. It was completed in August 2004.

In preparing the report, we drew extensively on previous evaluations of the Tanzanian experience, notably the 2002 report of the Independent Monitoring Group and the more recent 2004 evaluation carried out jointly by the International Monetary Fund's (IMF) Independent Evaluation Office and the World Bank's Operations Evaluation Department. We held a series of discussions in Tanzania with representatives of government, the private sector, civil society and development partners, including a workshop to discuss the initial findings, and a second series of discussions based on a draft of the report. We also discussed our findings with officials of the IMF and World Bank in Washington, DC. The conclusions, however, are our own.

The report and findings of this chapter focus on a set of key issues that were intended to serve as a template for the other country reports produced under this project. Given Tanzania's relatively extended experience with the Poverty Reduction Strategy Paper (PRSP) process, we have focused as much on areas where others can learn from that country's experience as on areas for attention in Tanzania itself. Even in Tanzania, which at the time of the report had more than three years' experience of implementation, it was too early to say much about final outcomes and results. The focus of this report, therefore, is more on processes and intermediate outcomes.

The chapter is organised as follows. Section II describes the PRS process as it evolved and continues to evolve in Tanzania. Section III examines issues to do with the strategy itself and its implementation. Section IV discusses the quality of support being given by development partners. Finally, Section V gives a summary of our key findings, including suggestions about areas for attention in Tanzania and possible lessons for other countries and the international community.

II Evolution of the PRS process in Tanzania

Origins of the Tanzanian PRS

The first PRS for the United Republic of Tanzania was prepared in 2000, primarily as a response to the HIPC (heavily indebted poor country) initiative. However, it followed a process of national-strategy formulation that had been under way for some years. The Development Vision 2025 document, published in 1998, set out a vision of development up to 2025. The National Poverty Eradication Strategy (NPES), published in 1997, was more specific about strategies and policies, and development of the PRS and the initial PRS paper coincided with, and took the place of, an exercise to develop a national action plan for implementation of the NPES. Also of relevance was the Tanzania Assistance Strategy (TAS), which was being drafted together with development partners at the time the PRS was being developed, and the public expenditure review (PER) process, which by 1998 had become a main vehicle for policy formulation linked to the medium-term expenditure framework (MTEF) and involving development partners as well as government.

Thus, in implementing the PRS process, the government was able to build on these pre-existing exercises. The PRSP superseded – in a sense became – the action plan for implementing the NPES. Very much in the spirit of the PRS initiative, it was designed to serve both as a document for the Bretton Woods Institutions (BWIs; required both for HIPC debt relief and continued concessional assistance) and as a national action plan for co-ordination of government policies aimed at poverty reduction. Because of the HIPC timetable, the PRSP was produced with some speed. The consultation process, while extensive, was felt by many to have been truncated. At the same time, the selected priorities – with a heavy emphasis on health and education spending alongside macro-

Box 2.1: Key features of Tanzania's 2000 PRSP

The 2000 PRSP identified the following three broad areas and set out government priorities, targets and benchmarks in each:

- reduction of income poverty;
- improving human capabilities, survival and social wellbeing; and
- containing extreme vulnerability.

It required sector policies and strategies to adhere to the national development agenda of eradicating absolute poverty, and to address the identified policy objectives and targets.

The PRSP also directed financial resources (government budget and donor support) to the priority sectors and areas. The priority sectors listed in the original PRSP included agriculture, basic education, primary health care, water and sanitation, rural roads, the legal and judicial system and HIV/AIDS. In addition, the PRSP identified priority cross-cutting issues, which included gender equality, preservation of the natural environment and employment creation.

The PRSP called for an effective poverty monitoring system and identified indicators (mostly outcome and impact indicators) to be used in tracking progress. The current list has 60 indicators in the following 12 categories: income poverty; roads; agriculture; education; health; water and sanitation; survival; nutrition; governance; gender; poverty-environment linkage; and vulnerability.

The PRSP is updated annually in a progress report, and at the time of the country report was undergoing a more comprehensive review, three years after the original PRSP.

economic policy – also probably owed something to perceptions of what was required for HIPC relief. Successive PRSP updates have in effect broadened priorities to give more emphasis, for example, to policies to support private-sector development and invest in infrastructure.

Integration of the PRS into Tanzania’s national policy-making framework

Tanzania’s PRSP has developed from its original form, but at the time of writing still had some way to go before being fully established as **the** national framework guiding all policies and initiatives aimed at growth and poverty reduction, driving sector policies and strategies, linked with the budget through the PER/MTEF, and setting targets with progress monitored through the Poverty Monitoring System (PMS). It is still seen by many as a strategy driven by external partners; and by many within government as of limited relevance to their ministries. Meanwhile, the endorsement by Tanzania’s cabinet and publication of a separate medium-term strategy for growth and poverty reduction, prepared by the President’s Office (Planning and Privatisation division) was a confusing factor. Moreover, despite arrangements for co-ordinating PRS formulation and implementation across government (see box 2.2), the process of integrating the PRS with parallel policy frameworks was still under way and by no means complete at the time of the Tanzanian study.

Most of the priority sectors have developed sector strategies and programmes based on their sector policies, which specifically mention the Vision 2025 and the NPES as their guiding framework. In addition, most ministries have developed strategic plans (in essence, action plans with monitorable indicators) based on sector strategies in the context of the Public Sector Reform Programme (PSRP) under the guidance of the Public Service Management Central Establishment. At the local government level, there is the Local Government Reform Programme (LGRP), which had started in 38 councils at the time of writing. The aim of the LGRP is to get similar results to those aimed for at the national level – that is, action plans set in a results-based management system.

Box 2.2: PRS co-ordinating arrangements and responsibilities

The PRS process in Tanzania is co-ordinated by the Poverty Reduction Strategy Technical Committee under the guidance of a committee of ministers. This committee draws members (typically directors of planning) from the PRS priority sectors, including Ministry of Finance (MoF), Vice-President’s Office (VPO), Ministry of Agriculture and Food Security, Ministry of Education and Culture, Ministry of Health, Ministry of Water and Livestock Development, Ministry of Community Development, Gender and Children, Prime Minister’s Office, President’s Office (Planning and Privatisation), President’s Office (Regional Administration and Local Government), Ministry of Works, Tanzania Association of NGOs (TANGO), Bank of Tanzania and co-opted members depending on the subject being discussed. The chair of the PRS Technical Committee is the deputy permanent secretary, Ministry of Finance, and the secretariat is provided by the Poverty Eradication Division – Vice-President’s Office.

The PRS is thus in practice led by both the MoF and VPO. The work of the Technical Committee involves follow-up on implementation, preparation of annual progress reports and reporting to the PMS Steering Committee and to the Committee of Ministers, as well as to development partners.

Box 2.3: Sector reform programmes supported by basket finance

- The Primary Education Development Programme (PEDP), Health Sector Programme, Local Government Reform Programme, Public Expenditure Review and Poverty Monitoring Master Plan (PMMP) are all well established.
- Basket funding arrangements were launched in 2004 for the Public Sector Reform Programme and Business Environment Strengthening in Tanzania (BEST).
- As of 2004, proposals were at an advanced stage to create new baskets to support the Public Financial Management Reform Programme (PFMRP) and Agriculture Sector Development Programme (ASDP).

In parallel with these sector strategies and alongside its involvement with PRS preparation and monitoring, the Ministry of Finance since 1998 has continued to lead the Public Finance Reform Programme, which led to the annual PER and MTEF – the twin processes that guide the national budget. Separately, the MoF also leads the TAS initiative, designed to provide government guidance and leadership in co-ordination of donor support; and is the main interlocutor for discussions with the IMF on policies supported by the Poverty Reduction and Growth Facility (PRGF), and with the World Bank and Poverty Reduction Budget Support (PRBS) group of donors in discussions of policies supported by the PRBS group and the Bank's Poverty Reduction Support Credit (PRSC).

Although these various processes commenced at different times and are co-ordinated by different ministries and institutions, they are all linked. However, not all ministries see and appreciate the linkages. Even where the linkages are seen and appreciated, it is not always obvious how to tie the processes together in practice. Different government ministries and institutions have, therefore, tended to continue to focus on their own respective initiatives, and to treat the PRS as a mandate of the MoF and VPO. The one central link that does tie most activities together in Tanzania is the annual process of budget decisions (see box 2.4). There are also still some disconnects between MTEF/PER processes, budget decisions and the PRS – both in substance and timing – although the government is working to rationalise all these processes within the National Budget and PRS frameworks.

Policy conditionality set by donors and the BWIs

As noted above, alongside the national processes, the MoF continues to have separate discussions with the IMF about support from the PRGF, and with the World Bank and

Box 2.4: Annual budget process

- **Budget guidelines** issued in January: a three-year rolling medium-term expenditure plan put together by the Budget Guidelines Committee
- **The MTEF/PER** process concluded in April/May comprises a macro-fiscal framework and detailed MTEFs incorporating PRS priorities for priority sectors
- **The annual budget**, submitted to parliament by mid-June
- **The PRSP Progress Report**, scheduled for publication around November (but in practice there have been significant delays)

PRBS group of donors about their support under the PRSC and bilateral budget support arrangements. These discussions result in negotiated documents, which specify actions to be undertaken, outputs expected and benchmarks for continued budget support. For the PRGF, the Government of Tanzania had up to the time of writing continued to prepare a letter of intent signed by the Minister of Finance stipulating commitments to adhere to sound macroeconomic management, and making projections of the macroeconomic variables and setting structural benchmarks. For the PRBS and PRSC, there is a performance assessment framework (PAF), which lists actions and outputs to be achieved by specified dates to warrant continued budget support. Currently, it is a joint PAF (for both PRSC and PRBS) with a list of prior actions and triggers for subsequent disbursements. Preparation of the PAF matrix and updating is co-ordinated by the Ministry of Finance and involves both central and sector ministries.

Donor co-ordination, the Tanzania Assistance Strategy and work of the Independent Monitoring Group

The co-operation between donors in the PRBS group reflects a growing willingness on the part of donors to harmonise and align their support for government actions and policies using either the budget process or by providing support for sectoral investment programmes through basket funding (see box 2.3, above). The 2002 Rome declaration on aid alignment and harmonisation gave impetus to this process, which is probably as far advanced in Tanzania as in any other developing country. The government is using the Tanzania Assistance Strategy (TAS) process to reinforce this development, and the 2002 report of the Independent Monitoring Group (IMG; see annex for a summary) also helped.

The Implementation Action Plan for the TAS (June 2003) identifies four priorities:

- **Improving predictability of aid flows.** There have been some improvements, including shared projections, changes to the nature of conditionality and earlier disbursement within the fiscal year, but important challenges remain.
- **Integrating donor funds into the government budget.** Some partners have responded to improvements in the government's financial management system by agreeing to channel a higher proportion of aid through budget support and basket funding, but capturing in the budget donor resources channelled direct to projects remains a challenge. Few donors have as yet agreed to use the new mechanism to channel such resources through the budget (see box 2.5, below).
- **Rationalising and harmonising processes.** The government bears a double burden: of a very extensive system of consultation and other co-ordination mechanisms with locally based development partners; and a continued burden of donor missions from capitals and head offices requiring time of senior officials (the Ministry of Finance estimates there were more than 500 such missions in 2002/03). Some progress has been made in establishing 'quiet times' of the year, and in promoting joint reviews and missions (as in the PRSC/PRBS group), but much remains to be done.
- **Capacity building** for aid co-ordination and external resource management, to help strengthen the government's leadership role in these areas.

Box 2.5: Integrating donor funds into the government budget

Increasing the proportion of aid flows captured in the government's budget – both budget estimates and disbursements – is an agreed objective under the TAS. It hinges on success in ongoing reforms of the government's public financial management system. Important elements include the Integrated Financial Management System (IFMS), the PER/MTEF framework, the Public Finance and Public Procurement Acts 2001, and implementation of the Public Financial Management Reform Programme. The IFMS, which began to be rolled out in 1998, provides a single computerised payments system for the government, providing full financial control and reporting.

Development partners have responded to these improvements with some increase in funds channelled through the budget, notably budget support and basket funding – which increased from around 30 per cent of all aid flows in 2002 to around 40 per cent in 2004.

The remaining challenge is to capture funds that flow directly to projects being implemented by sector ministries and local government. Around 650 separate projects were being implemented in fiscal year (FY) 2002/03. The Accountant-General has created a mechanism for donors to channel funds to projects through the government's accounts, a mechanism that can even be used for disbursements to non-governmental organisation (NGO) and private-sector projects. As of 2004, despite considerable efforts made by the Accountant-General's department, only a few donors had begun to make use of this mechanism. Officials from Canada (which had to pass domestic legislation to make this possible), the UK, Norway, Ireland and the United Nations Development Programme (UNDP) all attended training sessions with the Accountant-General's department. However, as of November 2003 only four development partners had indicated readiness to use the new mechanism.

At the time of the Tanzanian study, the government was considering an early review of the TAS with a view to strengthening it. In parallel, development partners in Tanzania were beginning to discuss the possible development of a Joint Assistance Strategy (JAS) – covering such issues as aid modalities, ways to improve predictability and ways to reduce inward missions and other development partner demands on government – recognising that any such strategy would need in due course to be merged into a new TAS.

The PRS review

At the time of writing, the Vice-President's Office was leading the process of producing a new PRS. There had already been a first round of consultations – including with parliamentarians and the private sector, as well as civil society organisations (CSOs) and development partners, and work was just starting on the first full draft. Two further rounds of consultations were planned on the first and second drafts, before the adoption of the strategy. We discuss many of the issues that arose in section III, below.

Outcomes to 2004

According to BWI and government figures, the PRS process has been associated with a substantial increase in external financial support for the Tanzanian government, with external flows rising from 25 per cent of budget spending in 1998 to over 40 per cent in

2003 (see table 2.1). Over the same period, the proportion of gross aid flows provided in programme (including debt relief) rather than project aid increased from 40 per cent to 60 per cent. On the other hand, figures from donors published by the OECD Development Assistance Committee (DAC) suggest that expressed as a proportion of GDP, total aid flows to Tanzania have been relatively flat over the last decade, running at around 13 per cent of GDP (see table 2.2). So at least part of the recorded increase in flows to government may reflect a diversion of aid previously channelled to NGOs, or provided in the form of time of foreign consultants, and part may reflect a capturing of flows not previously recorded in the government's budget – in many ways welcome developments in themselves.

As of 2004, it was still thought to be too soon to expect to see any substantial results of the 2000 PRS and its implementation for growth and poverty reduction. However, as table 2.3 illustrates, growth had picked up since 2000, and although there was a downturn in 2003, this was less than might have been expected given adverse weather and other conditions.

Table 2.1: External assistance to the Government of Tanzania
Grants and net loans, including HIPC debt relief

	FY1998	FY2000	FY2002	FY2003	FY2004 (proj)
% GDP	4.0	6.0	5.9	8.6	9.7
% Government expenditure	25.5	34.5	33.5	41.3	40.9
Programme aid as % of grants and loans (gross)	39.2	35.8	58.2	56.7	60.7

Sources: World Bank, IMF, Government of Tanzania

Table 2.2: Official development assistance (ODA)
Disbursements, \$m

	1996	1998	2000	2002
ODA, nominal	877	1,000	1,022	1,233
ODA, real	729	910	978	1,164
ODA as % of GDP	13.5	12.0	11.3	13.1

Sources: OECD DAC, IMF, World Bank

Table 2.3: Real GDP growth (%)

1996	1997	1998	1999	2000	2001	2002	2003
4.2	3.3	4.0	4.7	4.9	5.7	6.2	5.6

Source: Government of Tanzania

III Quality of the PRS and its implementation

This section seeks to answer a set of key questions about the nature and quality of the Tanzanian Poverty Reduction Strategy process. Here we focus on the whole process – including PRSP documents, the process of drawing them up and strategy implementation, including the link with budget and other government processes – not just on the PRSP documents themselves.

Ownership

A central question is how far the PRS is seen and accepted in the United Republic of Tanzania as a country-owned and country-driven strategy – by the government, parliament and other country stakeholders; or is it seen as just another requirement for qualifying for external assistance?

While the PRS was developed through a broad-based participatory process, **it seems to be widely accepted that the depth of ownership of the initial PRS adopted in 2000 was not great**, although it was certainly seen and accepted by the cabinet as a government strategy. As already noted, the strategy was prepared in haste, to obtain HIPC debt relief, with both the process and content designed to follow a Washington ‘template’. The content also focused on increased social expenditures, in a manner thought to be a requirement for HIPC relief. Nevertheless, the strategy did benefit from an extensive consultation and participation process, and also from pre-existing longer-term national strategies – Vision 2025 and the National Poverty Eradication Strategy – to which it was closely linked.

Ownership has grown and is still growing, through a series of annual progress reports and implementation. There is strong ownership at the top of the key central ministries – the Ministry of Finance and the Vice-President’s Office. At the same time, there has been continued and broad engagement with other stakeholders including civil society through working groups, national debates, the organisation of ‘poverty weeks’ and so on. ‘Ownership’ is a complex concept, however, and best discussed in terms of individual components, and in relation to the whole PRS ‘process’ rather than the strategy document itself. At the time of the study, **there were clearly still many weak links.** There was also **a continuing widely shared perception that it was a strategy prepared more for external partners than for internal partners**, and that it did not feature as frequently in high-level policy statements as it would if it were the guiding domestic strategy. The publication in 2004 of a separate medium-term plan for growth and poverty reduction was also confusing.

Ownership within government

As was recognised in the government’s guide for the 2003/04 review of the PRS, ‘there is still a lack of awareness and ownership of the PRS across all levels and sectors of government’. Recognition of the importance of the PRS is especially weak at the local level, and among sector ministries other than those that were original PRS priority areas – health and education. As noted earlier, sectors focus on their sector strategies, which are based on Vision 2025, the NPES and the PRS and TAS, but do not necessarily realise they are implementing the PRS. Members of the PRS Technical Committee from

different ministries have tended to operate more in their individual capacities, rather than as effective representatives of their institutions. Hence **many ministries continue to view the PRS process as primarily the mandate of the VPO, so that even those who are actively implementing the components of the PRS are often unaware that they are doing so – and in some cases are unaware of the existence of the PRS.**

This matters, because implementation depends on the efforts of sector ministries and local and district government, and depends in particular on these units integrating the strategy fully into their normal decision-making processes. As is discussed further below, a key measure of ‘ownership’ is the extent to which the PRS is integrated into normal government decision-making processes, and implemented in a way that delivers the strategy’s objectives.

Engagement of civil society, parliament and other stakeholders

How do other domestic partners – notably representatives of civil society, the private sector and parliament – view the Poverty Reduction Strategy process? Civil society organisations, and particularly the NGOs that were actively involved in the fight for debt relief, were involved in the preparation of the original PRSP, and continue to be involved in the Poverty Monitoring System (in the steering committee and in the Technical Working Groups) and the poverty policy week. NGOs working together in the NGO policy forum made a substantial and impressive written contribution to the PRS review. The private sector’s involvement remained minimal, however. Members of parliament also generally remained out of the loop, except for a few workshops that were organised to inform them about the PRSP and progress reports. (Key PRSP documents are also shared with MPs for their information.)

Up until 2003/2004, the virtual absence of parliamentary interest in the process was particularly striking. In a parliamentary system as in Tanzania, parliament might be expected to play a much larger role in developing the PRS than it did – perhaps through the Finance and Economic Affairs Committee. As it was, **the lack of awareness of the PRS among parliamentarians was an indication of how far there was to go to fully integrate the PRS into national processes.** True national ‘ownership’ of the process would and should be reflected in increased accountability to the people, and unless MPs become more involved, there must be doubts about the political sustainability of the process.

The PRS review guide recognised the need to further foster country ownership ‘by improving participation ... [and to] develop a PRS communications strategy to raise public awareness of the PRS’, and to strengthen the participation of democratic institutions such as local councils and parliament ‘to create a genuine country ownership’. **So it is encouraging that an active process of consultation on what was to become the 2005 PRS was launched with parliamentarians and the chairs of the key parliamentary committees.** The country report of that year recommends that, ‘Ways should be found also to allow parliament to engage regularly in the process of annual PRS review, perhaps by including the PRSP progress report among budget documents, so it can be scrutinised during budget debates. It will be important at the local level to achieve greater awareness of the process and involvement of local councillors, who are responsible for the local development machinery’.

The country report also highlights that: 'It will be important in the PRS review [of 2003/04] to allow much more time than in the original PRS process for in-depth consultations with civil society and other stakeholders. And in particular the quality of consultation and discussion of macro-policy issues needs to be improved'. In fact, over the PRS period the macro framework has been adapted and improved, at least in part as a result of input from independent outsiders. Nevertheless, many still feel excluded from the debate on this central aspect of policy. The technical nature of some of the macro-policy issues should not be seen as a reason for limiting debate, but rather as a challenge to those concerned – in government and in the IMF – to frame issues in a way that makes them accessible and understandable to non-experts. We do not believe this is an impossible task. This is relevant to the continuous process of consultation inherent in the PRS process, including at the time of regular reviews under the PRGF arrangement, as well as to the process of producing a new PRSP. Some discussion already takes place at the annual PER review meetings, and thought might be given to developing other suitable fora for discussion.

A national framework or a basis for accountability to development partners?

Underlying many of the issues discussed above is the question: is the PRS primarily a national framework for guiding policy action, or is it first and foremost an instrument of accountability to the BWIs and other development partners? There is no doubt that as originally conceived in Washington, PRSPs were intended to be the former. **It is also clear that many of the Washington-based processes surrounding the PRS, with the PRSP apparently needing to be 'approved' by the BWI boards, give an impression that it is the latter. It will take a determined effort to dispel this impression.**

In Tanzania, the PRS is serving as a national process for policy dialogue and identification of priorities for more effective growth and poverty-reduction policies, with annual updates through the PRS progress reports and with the annual poverty policy weeks providing a forum for exchange of ideas among the stakeholders. While, as noted in section II, the strategy was not yet fully integrated into national policy-making arrangements at the time of the study, the PRS was increasingly being considered by the government and civil society, as well as external development partners, to be the national framework that guides policy and actions for growth and poverty reduction. At the same time, PRSP documents are subject to 'assessment' by the BWIs, and scrutiny and 'endorsement' by their boards, and are often produced to meet Washington timetables. PRSPs and progress reports also provide indicators and benchmarks that external partners use to judge progress and as triggers for assistance.

Our view is that a national policy document, once approved, should not be subjected to external approvals by the BWIs, or any other external partners. Obviously the BWIs and other external partners have to make their own decisions about how much support to give, but it is important to avoid giving the impression that the PRS needs BWI 'approval'. **This may require changes in BWI procedures, which in any event should focus more on assessing the whole PRS process, including implementation arrangements, and much less on the quality of individual documents.**

In parallel, and linked to this change, the 2004 study found that it was **important to strengthen the Tanzanian government's domestic accountability for the strategy and its implementation.** It is not just that parliament needs to be more involved, as was planned,

but parliament also needs the resources, procedures and time to become an effective form of accountability. Moreover, PRS, budget and related documents should not just be published, but publicised, put on websites, with channels provided for comment.

There were other actions that could help establish the PRS as the guiding national policy framework in the country:

- **More frequent, high-level policy statements giving it this status**
- **Clarification that the 2004 PRS would encompass the recently published medium-term plan for growth and poverty reduction, and that they are not rival strategies**
- **Adopting a new national name for the strategy, dropping the BWI nomenclature**

With the PRS becoming more clearly a national document and process, some argue the case for negotiating a separate 'contract' between the government and development partners, perhaps building on the existing PAF agreed with the World Bank and PRBS group of donors, and the letter of intent to the IMF. Our own view is that **would be a mistake**. It would undermine ownership, and could lead to a return to old-style conditionality. The better approach, more consistent with the underlying PRS philosophy, is to accept that in a country like Tanzania, with over 40 per cent of the budget (including 20 per cent of recurrent expenditure) financed by support from donors and external agencies, any central government growth and poverty reduction strategy is bound to serve a dual purpose: to act as the government's own strategy, and to form the basis of an accountability contract with donors. PRSPs are indeed intended to play this dual role – in the words of the Bank/Fund guidance on good practices: 'PRSPs aim to serve as the framework for both domestic policies and programmes to reduce poverty, as well as for development aid'. There will inevitably be a degree of tension between country ownership and the requirement for acceptance by the BWIs and donors as a strategy deserving their support, including particular benchmarks and actions to which they attach importance. The question is: how is this tension being addressed, and could it be handled better? There are both many positive developments in this respect in Tanzania, and scope for further improvements, as discussed further below.

Nature and quality of the PRS

What is the nature of the Poverty Reduction Strategy in Tanzania? What improvements had to be made up until 2004, and what further improvements should be made in future?

Broad or narrow?

A central question here is: is it/should it be a strategy narrowly focused on direct poverty reducing interventions and macro stability; or is it/should it be something closer to a national development strategy, encompassing all elements of policy and spending related to economic growth and poverty reduction? While the PRS started as something close to the former – seen to be a requirement for HIPC debt relief – it has steadily developed into a broader and more comprehensive strategy, and **the PRS review of 2003/04 seemed set to and should mark a further step change in the same direction, turning the PRS process into more of a comprehensive development strategy for growth**

and poverty reduction, one that drives other strategies. At the time of writing, we understood the government was considering a new name for the strategy, as suggested above, which would help signal this change.

While it is important not to lose the progress made in focusing more attention on key social investments in health, education, water and establishing a poverty monitoring system, this widening of scope would (we believe) be an altogether welcome development. First, the sectors and cross-cutting issues that were being added are crucial for sustainable poverty reduction: policies and expenditures that create jobs, support livelihoods, address underlying problems of industrial competitiveness and improve the environment for private-sector development, assist agriculture, strengthen infrastructure, address issues in energy supply and mining, and improve security and policing. Second, a more comprehensive national development strategy may be easier to fully integrate into the day-to-day running of government, with all ministries involved, something that is crucial for effective implementation. Third, although this may not have been fully recognised, **the shift to a broader strategy is to some degree implicit in the decision already made to make the new PRS more results based.** So, for example, a focus on increasing school attendance automatically points to the need for better transport or provision of nutrition at schools, as well as better school buildings and teachers.

This does not mean sacrificing priority setting. It will be even more important for a more comprehensive document to specify the main priorities for the period of the strategy. However, priorities should be set recognising that policy actions and expenditures in non-priority sectors remain important and complement actions in priority sectors. The changes may even involve reorientation of non-priority sectors to complement better the priority sectors. Moreover, the strategy needs to go beyond setting priorities for public expenditures. It is equally important to identify priorities for changes in policy – for example, the need to adopt policies designed to support private-sector development by reducing unnecessary bureaucracy and removing an array of obstacles that raise the cost of doing business. Such policy changes may carry no budget cost, but may be as important for growth and poverty reduction as decisions about the allocation of public resources.

Bottom up or top down?

Another issue is how far the PRS should become a bottom-up rather than top-down process. As individual sector strategies develop and mature, it probably will/should become more bottom up, starting from local government and the community level, as well as sector strategies and incorporating these in the overall national strategy. A central feature of the 2004 PRS was likely to be a matrix relating desired outcomes to specific-sector actions. This is linked with the issue we discuss elsewhere of integrating the PRS process better with other parallel policy-making and implementing processes in government. **Those making the sector contributions – normally directors of policy and planning – and those making community/ local development contributions such as councillors and local officials should see defining and adapting the PRS as central to their own strategies, action plans and decision-taking, rather than as separate, additional processes.**

Risk analysis

The study for Tanzania found that the 2004 PRS might also usefully discuss some of the risks that could derail the strategy, such as HIV/AIDS, and what actions could be taken to mitigate or respond to such risks.

How well was the strategy being implemented?

There is a growing awareness both in government and among development partners that however good the strategy document is, and however well conducted the preparation process, it is worthless unless it is implemented effectively. This recognition that it is the whole PRS 'process' that matters much more than the PRSP itself (however well written) is itself a welcome development. The process encompasses or should encompass links with sector strategies and action plans and the annual budget process, and also implementation and results achieved on the ground.

Integration with mainstream policy formation and implementation

At the time of writing, there was only limited information about final outcomes achieved on the ground in Tanzania, and our main focus was on the intermediate stages – in particular the links between the PRS and government decision-making processes. The discussion above describes progress made to 2004 in integrating the PRS process into the national policy-making and implementation framework. Disconnects still exist between the PRS, sectoral strategies and action plans, PERs and the MTEF and budget decision-making. **Yet a successful PRS process requires all these processes to be well linked together and all those concerned with its implementation to see the strategy as an integral part of the work of their ministries and institutions, not as a separate activity for which responsibility lies in the VPO or MoF. In particular, a much firmer link between the PRS, sector strategies and budget decisions is needed.** This was recognised in the Ministry of Finance, which in 2004 was working to rationalise all the processes within the national budget and PRS frameworks.

The set of (to some degree) parallel processes – budget processes, PER/MTEF processes, sector strategies and strategic plans, and PRS processes – have developed over time with different starting points. The 2004 country study recommends (as we believed was planned) that **it might be useful to take the opportunity of the three-year PRS review to see if these various processes could be rationalised to some degree and integrated together better.** The PER evaluation carried out by the World Bank in 2004 makes some useful suggestions for streamlining and better integrating the annual PER/MTEF, PRS and budget processes, defining an annual cycle in which the PER/MTEF and PRSP progress report inform the December budget guidelines. **We suggest that the PRSP progress report should be produced each year in September/October, to feed into the MTEF, which should be produced around the same time – ahead of the budget guidelines issued in December.**

Capacity building for implementation

Experience to 2004 in Tanzania also emphasises the importance of **creating national capacity for undertaking the multiple functions required to implement a successful**

PRS. It is understandable that the initial focus was on building capacity for setting the strategy and engaging in debate with development partners and civil society. However, just as important is building capacity in sector ministries and at local level both to participate better in the strategy process and to implement it. At the same time **it is crucial**, as discussed in the next section, **to help free up government capacity by removing some of the demands – both of time and attention – placed on government by external partners.**

IV Quality of support given by development partners

How well are development partners supporting the PRS process?

Partners have given and continue to give much support to Tanzania's PRS process – for example, through their participation in the PRS Technical Committee, the PMS Steering Committee, the work of the PRS reviews and the various working groups of the PER/MTEF. At the same time, they provide support in building relevant government capacity: examples include the support from the World Bank and others for household budget surveys, which provide the key to better poverty monitoring; and support from the IMF, World Bank and others for a stronger public expenditure management capacity in the Ministry of Finance.

The Tanzania Assistance Strategy

The TAS and the TAS Implementation Action Plan are proving useful vehicles for driving the process of donor alignment and harmonisation, although ambition had been relatively modest to 2004. The joint government/development partner TAS secretariat had also added value in providing a continuing mechanism of consultations between government and the development partners. However, the frequency of its meetings in 2003 (two meetings instead of four, as envisaged) may have been a reflection of the need for further rationalisation of the consultation processes between government and development partners. **We see considerable scope for strengthening the TAS to incorporate some of the proposals made below for improving the modality and predictability of external support, and simplifying mechanisms for discussion and consultation with partners.** In general, aligning donor support better with country priorities set out in the PRS is likely to take time if it is to be sustainable, involving as it does reconciling systems and priorities of individual donors with those of the government.

Joint Staff Assessments

Joint Staff Assessments (JSAs) by the World Bank and IMF of the PRSP and annual progress reports, while perhaps less than fully candid, have helped improve the process. For example, the second progress report included for the first time an adequate macro-economic analysis, linking macro policy with growth and poverty reduction, as recommended in the JSA on the initial PRSP. Another theme of development partners' comments on the content of PRS documents was the need for greater attention to accelerating growth and stepping up efforts towards domestic resource mobilisation – which was followed up in PRSP progress reports. **We believe these assessments can**

continue to play a useful role both in informing decisions about international financial institution (IFI) financial commitments and providing feedback to the Government of Tanzania. However, to do so they should be candid, should focus on the whole PRS process, including implementation arrangements, and should draw on (or at least report) the views of other development partners. It follows from an earlier proposal that JSAs should no longer be linked to any appearance of BWI 'approval' of the PRS. They should be carried out to a timetable linked to government decisions and detached from BWI board schedules – perhaps produced on a regular annual basis at the time of the budget.

Have development partners accepted government priorities and policies as the basis for their support? Or have they sought additional conditions?

In general, partners seem increasingly ready to leave the Government of Tanzania the space it needs to produce its own strategy. Even the initial PRS, which sought to a large extent to follow a Washington 'template', marked a major advance from the days when country 'policy framework papers' were written in Washington. At the same time, by 2004 the government was clearly taking firm control of production of the PRS review. There is broad recognition that enhanced transparency and participation have strengthened national ownership and helped put the government in the driving seat.

Shift to budget support

One highly positive development has been the shift away from support for individual projects, each requiring separate negotiation and not always within the government's priorities, towards general budget support and support for sector strategies through basket funding arrangements. Donors who see the greatest difficulties in moving towards budget support or basket funding for sector strategies rather than individual projects are nonetheless beginning to do so. Peer pressure has helped encourage this development, as has observation of the qualitative benefits of programme and budget support, including its contribution to strengthening ownership.

Conditionality: imposed or government owned?

Despite the above, Tanzania is still a long way from a situation where development partners simply accept the government's priorities and support them. Donors supporting individual projects still insist on the normal array of project requirements, and not all projects fit with national priorities. As noted in section II, as of 2003, very little use was being made of the facility to fund projects through the budget. Basket-funding arrangements have been beset with delays resulting from difficulties in complying with requirements of some donors – though these are as often more to do with accounting and auditing procedures than being policy related. The IMF still negotiates the letter of intent written to gain access to the PRGF. Meanwhile, the group of donors providing budget support – the PRBS group – has set out its own conditions – summarised in a performance-assessment framework – in their collective discussions with government. Seen from the government's point of view, this collective discussion is preferable to a series of individual discussions with different donors, although it has imposed initial

co-ordination burdens on government. It is also welcome that the PRBS group (which includes the World Bank, but not the IMF) has sought to align its conditions with those attached to the World Bank's PRSC and the IMF's PRGF. **However, while these various conditions and requirements set by development partners no doubt reflect genuine concerns, they seem less than fully consistent with the underlying spirit of the PRS approach.**

As noted elsewhere, there is bound to be some tension where a single strategy serves both as a national policy framework and as the basis for a contract with development partners. The question is, how is the tension being handled: how far do the 'conditions' attached to the PRSC and PRGF represent elaborations of the PRS made and accepted by the government; and how far, if at all, do they represent additions, outside the PRS, required by development partners as conditions for their support? The former would be within the broad spirit of the PRS approach, the latter would not, and some evidence suggests that the former is the more accurate model (see box 2.6).

Possible improvements

Our impression is that development partners' concerns in the provision of budget support are more to do with uncertainty about PRS implementation than questioning or seeking to add to the PRS itself. The key to reducing this kind of micro-management by donors may lie in a combination of greater self-restraint by donors (focusing only on issues they see as of major concern), reform of government implementation and decision and financial management processes, as discussed above, and better data about outturns and intermediate outputs. This would allow all to be assured that the PRS is being implemented effectively. The planned streamlining of government decision-making procedures should both reduce the number of occasions when inputs are needed and give greater clarity about the points in decision-making where constructive interventions by partners would be most useful. There is also a need to strengthen performance and results-oriented accountability arrangements, with a greater focus on outcomes as a way of reducing micro-management. The work that is being done under

Box 2.6: The June 2003 letter of intent

A comparison between the second PRSP progress report dated March 2003 and the macro-economic programme set out in the Government of Tanzania's letter of intent to the IMF dated 10 July 2003 throws some light on the question of the extent to which conditions are imposed rather than representing aspects of pre-existing government strategy.

The latter (see table 2 in the letter of intent) focuses on the areas of tax policy and tax administration, financial sector reform, the investment environment and governance. All these concerns are also reflected in varying degrees in the second PRSP progress report (pp. 17–26) – with tax issues, the investment environment (private-sector development) and governance given extensive discussion. These issues are also highlighted in the 'policy matrix for poverty reduction strategy, 2002/05' at the end of the second PRSP progress report document.

Hence there does seem to be a quite close correspondence between the PRGF 'conditions' and policies set out by the Government of Tanzania previously as its own priorities. Similarly, the PAF underlying support from the PRSC and PRBS group relates quite closely to items in the action matrix included in the second PRSP progress report.

the Public Service Reform Programme should be seen as an integral part of this reorientation.

Similar and if anything more acute issues arise in the operation of 'basket funds' at the sector level, with development partners still looking for auditing, monitoring and progress reporting arrangements separate from the government's own systems, despite reforms of the latter. Again the key to reducing donor micro-management may lie in further strengthening government processes and (perhaps as important) a better understanding by donors of what these processes are. The initiatives that Tanzania's Ministry of Finance has taken in this direction were already helping at the time of the study, but this would be an important area for attention in a strengthened TAS.

We also hope there can be rapid progress to a situation where those issues and actions that particular partners or groups of partners wish to highlight in more detail than in the PRS are handled by setting out the government's commitments in government policy statements and documents, rather than as separate negotiated 'conditions' for support. Some could and should feature in the PRSP itself. Others would feature in sector strategies or strategy plans. Others could be set out in self-standing government documents. For example, many of the actions and timetables in the PRBS PAF could, perhaps, be incorporated in the PRSP itself; and future letters of intent to the IMF might be written not as extended letters from the minister, but as a short covering letter attaching a published document setting out the government's priorities and policy commitments in macroeconomic policy. **Making commitments in this way in public and to parliament, rather than in semi-private negotiated documents, would be an important part of strengthening domestic accountability.**

Is financial support becoming more predictable? Are donor decisions and disbursements timed to coincide with the budget cycle?

The move to budget support financing has been associated with a significant improvement in the short-term predictability of disbursements, as reflected in their timing. In contrast to the past, when most disbursements were in the final quarter of the FY, approaching 60 per cent of budget support was by 2004 disbursed in the first quarter, with 90 per cent scheduled for disbursement by the end of the second quarter. Greater familiarisation with and reliance on the government's own financial control mechanisms have been a major contributing factor. This is true of much multilateral as well as bilateral support. At the time of writing, the move to basket funding at the sector level had yet to pay similar dividends in terms of timing and front loading of disbursements, although the outcome tends to be better where sector-development plans are better programmed and agreed upon with development partners. Sector ministries often express a preference for basket funding, which they see as a basis for a close relationship with development partners, giving them some independence from central government budget decisions. On the other hand, they also express a preference in terms of usability and predictability for finance provided through the budget over both basket funding and project finance.

However, despite its many advantages, there are real concerns about the medium-term predictability and reliability of budget support finance, where there is a perceived risk of delay or non-disbursement by donors because of relatively modest policy disagreements or political events including events outside the government's control. In the

words of the June 2003 Action Plan for implementing the TAS, 'The risks of non-disbursement or untimely disbursement are particularly acute for direct budget support, where government may have committed funds in good faith, based on agreed expectations of disbursements. Increased transparency and timely sharing of information will reduce problems associated with predictability.'

Our view is that those providing budget support should be prepared to go further. In effect they are committing themselves to give general financial support for implementing the PRS – and as that is a medium-term strategy, their commitment should be medium term also, perhaps set out in the form of a rolling multi-year 'contract' setting out support to be expected, with disbursements only disrupted in the most serious circumstances, including serious failure to implement the PRS.

How well is donor co-ordination and harmonisation working?

By the time of writing, development partners in Tanzania had made considerable progress in implementing the 'Rome' agenda of better donor co-ordination and harmonisation, but there was still much more to be done.

Donor missions

The impressive array of local co-ordinating and consultation committees and groups has not yet eliminated the need for individual donor missions, contacts and negotiations with the GoT – though it should be a long-term objective that it should do so. Indeed, in FY2002/03 the government estimated there were more than 500 separate missions from partners, many from donors like the World Bank with a substantial local presence. As of 2004, some progress had been made in declaring quiet periods of the year, when missions are not welcome. Where such missions are purely technical they can of course add value, bringing in expertise. The problem arises when – as is too often the case – visiting officials feel they need to take up the time of senior officials and ministers.

Local consultation machinery

On the other hand, the multiplicity of local co-ordinating mechanisms, both for the overall strategy and at the sectoral and cross-cutting issues level, is also a matter of concern – both to donors and even more so to the government, given time and capacity constraints in government departments. Although this was perhaps a necessary response to the inherent tensions in the PRS process and to the initial challenges of implementing the 'Rome' agenda, **some rationalisation was already overdue by 2004**. Development partners had begun a rationalisation process, asking each of the development partner groups and working parties listed in their December 2003 stocktake to justify their continued existence. A more radical approach may be needed, perhaps with the GoT in the lead. This might be linked to the strengthening of PRS implementation and budget processes in government discussed above. At the national level, the Development Co-operation Forum appeared to be defunct by the time of the study, and questions were also being asked about the value added from consultative group meetings, formally the apex of the donor co-ordination effort. In view of the strengthening of the TAS and the

new institutional arrangements that have been created to implement it, it may also be necessary to revisit the role of the consultative group.

Local presence of development partners

A related issue is whether all partners are correctly organised at local level to allow the kind of effective local dialogue implicit in the PRS process, and to permit the phasing out of separate inward missions. **Our own view is that given the scale of external support for Tanzania and the spirit of the PRS approach and the Rome harmonisation and alignment agenda, all significant development partners, including the IMF, need to organise themselves locally so they can engage effectively in policy discussion in-country, and that this should lead to a significant reduction in the number and frequency of visiting missions.** In some cases this may require more local staff, but more importantly it will require empowerment of local staff by head offices to take decisions locally; better arrangements for continuity when local staff rotate; and implementation of arrangements for specialisation among development partners, assigning different partners the acknowledged lead in different sectors or issues. Taken together with the rationalisation of local consultation mechanisms suggested here, this would result in a significantly reduced burden on government.

Would higher levels of assistance be useful?

The case for larger donor flows needs to be addressed in the context of a broadened PRS making it more of a comprehensive development programme, Tanzania's absorptive capacity, and concerns about 'Dutch disease' – when too large a flow of external assistance leads to too high an exchange rate. The government and some donors stress the need for an exit strategy from aid dependence, and this is clearly a correct long-term goal. **However, in the short to medium term, there are a number of factors that suggest that in Tanzania a steady increase in volumes of aid would be productive and effective in driving progress to meeting the Millennium Development Goals (MDGs) in the country.** First, levels of aid in relation to GDP are not particularly high by historic standards. Second, there has been no sign so far of aid inflows affecting the exchange rate, and in general higher flows seem likely to be matched by higher imports. Third, as the PRS is broadened to cover new sectors, and effective strategies evolve for those sectors, there will be more areas where financial support would be helpful. Fourth, there is already a well-developed set of mechanisms for handling aid flows – particularly those that pass through the budget – and the associated policy dialogue with development partners, which form a good basis for handling extra flows of aid. Absorptive capacities would of course need to be further addressed, with challenges in terms of capacity building and utilisation of allocated resources, which suggests it would be more realistic to think in terms of a steady build up in volume rather than a step change.

A strengthened Tanzania Assistance Strategy

We suggest that all these proposals should be underpinned (as we believe was planned at the time of writing) by a revised and strengthened Tanzania Assistance Strategy (TAS). Work by development partners to develop a new 'joint assistance strategy' (JAS) provides

a good opportunity to make progress, and draw up a new TAS. This would need to address:

- Issues related to basket and project funding to the public sector – unless these can be phased out in favour of budget support
- Reducing the points and occasions for policy engagement
- Increasing the predictability of budget support, as proposed earlier

The need for independent monitoring

A unique feature of the development process in Tanzania is the arrangement for carrying out a periodic independent assessment of how the process is working, through the Independent Monitoring Group (IMG). It is widely accepted that the reports from this group continue to add value. It is an arrangement that might usefully be replicated in other countries. It is important, however, that the IMG's recommendations should either be acted upon or that clear reasons should be given where action is not taken.

V Main findings and recommendations

Successes and areas for attention in the PRS process in Tanzania

To summarise, experience with developing and implementing the Tanzanian Poverty Reduction Strategy has been generally positive. It benefited from a number of pre-existing and parallel processes in the United Republic of Tanzania, and evolved during the first three years of implementation in ways that improved the process and pointed to further changes needed in future, many of them already under way. As the government completed its review and prepared its new PRS, we saw scope for improvements in five areas, recognising that in many cases steps were already being taken to introduce such changes along the lines suggested.

Establishing full national ownership

There is a need to further broaden ownership, strengthen domestic accountability and embed the PRS and its implementation better in national processes, including the budget process. It is important to remove the perception of the PRS being primarily linked to the provision of external support and to establish the PRS as the central national framework for growth and poverty reduction.

We would like to emphasise in particular the importance of **action to increase awareness of the PRS among parliamentarians and local councillors and their involvement in the process**. True national 'ownership' of the process would and should be reflected in increased accountability to the people, and greater involvement of parliament, as was beginning to happen in the PRS review, seems crucial to the political sustainability of the process. Similarly, it is important to achieve greater awareness of the process and involvement among local councillors, who are responsible for the local development machinery. Other parallel actions may be needed to help establish the PRS as the guiding national strategy, including, for example, **more frequent high-level policy statements giving it this status and adopting a new national name for the strategy**.

At the same time, a **particular area where the quality of participation and discussion needs to be improved is in relation to macroeconomic policy.** The technical nature of some macro-policy issues should not be seen as a reason for limiting debate.

The PRS should be both a national strategy and also accepted by development partners as the basis for their support. **In due course there should be little or no need for separate conditionalities negotiated with partners.** All government commitments/agreed actions should be set out either in the PRS itself or in parallel more detailed public government policy statements. **Nor should the PRS as a national, government approved policy document, be subjected to a process that gives the appearance of requiring external approvals by the IMF and World Bank, or any other external partners.** Obviously BWIs and other external partners have to make their own decisions about how much support to give, but it is important to avoid any appearance of giving BWI 'approval'. This may require changes in BWI procedures, which in any event should focus more on assessing the whole PRS process, including implementation arrangements, and much less on the quality of individual documents.

Joint Staff Assessments carried out by the BWIs of the PRSP and PRSP progress reports would then cease to be linked to any concept of BWI 'approval'. JSAs would still be useful, both in informing decisions in the BWIs about the degree and nature of their support, and in providing feedback to the country. However, to fulfil these functions effectively, JSAs need to be candid, focus on the whole PRS process (including implementation), draw on or report the views of other development partners, and be carried out to a timetable linked to government decisions rather than BWI board schedules – perhaps produced on a regular annual basis at the time of the budget.

Establishing the PRS as a comprehensive strategy for growth and poverty reduction

It was hoped that the new PRS would complete the process already begun, of transforming what was originally a more narrowly focused strategy into a comprehensive national strategy for growth, development and poverty reduction.

We would like to emphasise in particular that:

- **A more comprehensive strategy does not mean sacrificing priority setting – indeed it makes it even more important to be explicit and specific about priorities.** However, priorities need to be set recognising the contribution of all sectors and policies to desired outcomes, and their interrelationships. This will also help to spread ownership of the PRS throughout government.
- **It should be made clear that the new PRS encompasses the recently published medium-term plan for growth and poverty reduction.**

Taken together with the actions set out above, these actions will all help the process of developing the PRS into what it should become: the central national framework for actions to support growth and poverty reduction.

Better integrating and simplifying national policy-making and implementation

Implementation of the PRS needs to be more fully integrated with national policy-making and budget processes, which themselves need to be streamlined and rationalised. This aspect was recognised in the Ministry of Finance, which had been working to rationalise all the related processes within the national budget and PRS frameworks.

A fully successful PRS process requires all related government processes to be linked together well, and all those concerned with its implementation to see the strategy as an integral part of the work of their ministries and institutions, not as a separate activity for which responsibility lies in the VPO or MoF. In particular:

- A firmer link between the PRS, sector strategies and budget decisions is needed. **We believe the 2004 PRS review could provide an opportunity to see if these various existing parallel processes could be rationalised and integrated together better.**
- **It is also important to build capacity across government, using increased support from development partners, to strengthen the government's ability to lead the process.** As important as building capacity are the steps discussed below for reducing some of the current demands of time and attention placed on government by development partners.

Aligning support from development partners with the PRS

While there had already been some progress at the time of country study, there is scope in Tanzania for much more to be done to align external support better with the country priorities set out in the PRS. This is a process likely to take some time if it is to be sustainable, involving as it does reconciling systems and priorities of donors with those of the government.

To make progress, **a combination of greater self-restraint by donors – focusing only on issues they see as of major concern – reform of government implementation and decision and financial management processes as discussed above, and better data about outturns and intermediate outputs** seems particularly important. This would allow all to be assured that the PRS is being implemented effectively. The planned streamlining of government decision-making procedures should both reduce the number of occasions when inputs are needed and give greater clarity about the points in decision-making where constructive interventions by partners would be most useful.

We also hoped that there could be rapid progress, as suggested above, to a situation where those issues and actions that particular partners or groups of partners wish to highlight in more detail than in the PRS are handled by setting them out as government commitments in government documents, rather than as separate negotiated 'conditions' for the IMF, World Bank and other external supporters.

In the short to medium term there are a number of factors that suggest that in Tanzania a steady increase in volumes of aid would be productive and effective in driving progress to meeting the MDGs.

Improving the modalities of external support

There was also a need to build further on past achievements in improving the modalities and effectiveness of external support, implementing in Tanzania the global 'Rome' agenda on aid harmonisation. We would like to highlight the following:

- The move to general budget support financing has many advantages. However, there were still substantial levels of funding to sector baskets and to individual projects at the time of writing. If these forms of financing continue, it is

important to ensure that they fall within overall government priorities and as far as possible are accounted for within government systems.

- There is a concern that despite its other advantages, budget financing could prove less stable and predictable than project finance. In particular, many see a risk that budget support donors could suspend their disbursements because of relatively modest policy disagreements or political events. **Those providing budget support are committing themselves to give general financial support for implementing the PRS – and as that is a medium-term strategy, their commitment should be medium term also, perhaps set out in the form of a rolling multi-year ‘contract’ setting out support to be expected, with disbursements only disrupted in the most serious circumstances.**
- The combination of continuing high levels of inward development partner missions and a highly elaborate system of local consultation machinery places high demands both on government and development partners. The best approach is to try to **focus more on local consultation, and at the same time take steps to rationalise local consultation machinery.**
- A closer development partnership on the ground in Tanzania requires changes from development partners. **All significant partners need to organise themselves locally so they can engage effectively in policy discussion in-country.** In some cases this may require more local staff, but more **importantly it requires empowerment of local staff by head offices to take decisions locally; better arrangements for continuity when local staff rotate; and implementation of arrangements for specialisation among development partners, assigning different partners the acknowledged lead in different sectors or issues.**
- We suggest underpinning these proposals – as we believe was already planned – with a **new and strengthened Tanzania Assistance Strategy.**
- This is also to be assisted by **continuing the arrangement for carrying out a periodic independent assessment of how the process is working, through the Independent Monitoring Group.** It is widely accepted that reports from this group continue to add value.

Lessons for other countries and for the international community

Many of these lessons from the Tanzanian experience may have relevance in other PRSP countries and for the international system. In this respect, we highlight the following:

- The whole PRS process, including implementation, is more important than individual documents. To be effective, PRSs need to be comprehensive, setting strategy for all policies relevant to growth and poverty reduction. They should also be fully integrated into the government systems for taking decisions, setting budgets and implementing policy, with ownership throughout government, not just in the central departments.
- Stronger engagement of parliaments is crucial if the process is to be politically sustainable.
- As PRSs develop, as they should, into central national development strategies covering all aspects of policy relevant to growth and poverty reduction, it appears increasingly inappropriate for there to be even the appearance of approval by BWIs.

- As PRSs develop into strategies accepted by development partners as a basis for their support, it should also be possible to move away from separate donor and agency negotiated conditionalities, with policies and commitments where necessary spelt out in greater detail than in the PRS in separate government policy documents.
- Some of the Tanzanian arrangements for monitoring and improving donor alignment and harmonisation, such as the TAS and IMG, might usefully be replicated in other countries.
- The trend to stronger local policy dialogue has important implications for development partners – notably the need for an empowered local presence to participate effectively, phasing out missions from capitals and head offices, and implementing local arrangements for different partners to take the lead on different issues.

Budget support finance has many advantages. To allay concerns about its medium-term predictability it should carry with it a medium-term commitment from development partners, with disbursements only to be disrupted in the most serious circumstances.