

**AFRICAN DEVELOPMENT BANK GROUP**



**TANZANIA**

**JOINT ASSISTANCE STRATEGY**

**REVIEW OF THE HARMONIZATION PROCESS IN FIVE  
COUNTRIES**

**OPERATIONS EVALUATION DEPARTMENT  
(OPEV)**

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## Table of Contents

	<u>Page N°.</u>
<b>Abbreviations and Acronyms</b>	<b>i</b>
<b>Executive Summary</b>	<b>ii</b>
1. Introduction.....	1
1.1 Objective:.....	1
1.2 Methodology:.....	2
2. The Harmonization / JAST Process.....	2
3. JAST and Effective Country Assistance Programming.....	6
3.1 Partner to GoT harmonization .....	7
3.2 Partner to Partner harmonization .....	8
3.3 Harmonizing Within Partner Institution .....	8
4. Bank's Role In The JAST Process.....	8
4.1 Bank Strategy and Portfolio.....	9
4.2 Modalities for delivering Development Assistance.....	10
4.3 Division of labour among Development Partners.....	11
5. Opportunities, Risks, And Costs.....	13
5.1 Opportunities.....	13
5.2 Risks.....	13
5.3 Costs.....	14
6. Lessons / Way Forward .....	15
7. Recommendations.....	16

<b>Annex</b>	<b><u>N°. of Pages</u></b>
1. Key Survey Results	6
2. JAST Risk Mitigation Measures	2

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## ABBREVIATIONS AND ACRONYMS

ADB	African Development Bank
CSP	Country Strategy Paper
DPF	Direct Project Funding
DFID	Department for International Development
EC	European Commission
ESW	Economic and Sector Work
EU	European Union
FI	Financial Institutions
IDA	International Development Association
JAST	Joint Assistance Strategy of Tanzania
MDB	Multilateral Development Bank
MDGs	Millennium Development Goals
M&E	Monitoring and Evaluation
MTEF	Medium Term Expenditure Framework
NEPAD	New Partnership for African Development
NSGRP	National Strategy for Growth and Reduction of Poverty
OECD-DAC	Development Assistance Committee of the Organization of Economic Cooperation & Development
OPEV	Operation Evaluation Department
ONVP	Operations (North, East & South) Department
PFM	Public Financial Management
PRBS	Poverty Reduction Budget Support
PIU	Project Implementation Unit
PRS	Poverty Reduction Strategy
SWAp	Sector-Wide Approach
UNDP	United Nations Development Program
ZPRP	Zanzibar Poverty Reduction Plan

## **Executive Summary**

1. Aid to Tanzania is currently at an unprecedented level, more than double its real value in the early 1990s. The AfDB is the 11<sup>th</sup> largest donor and ranked in the top quarter among all contributors present in Tanzania. This makes the Bank a significant donor, but a relatively small player in terms of overall aid flow to the country which accounted for about 45% of the GoT budget in 2005. With some 45 active donors in Tanzania, many sectors are overcrowded. Government of Tanzania (GoT) and Development Partners (DPs) are currently rationalizing both the number of donors per sector, and the number of sectors per donor through a Tanzania Joint Assistance Strategy (JAST). The JAST is a national medium-term framework for managing development co-operation between the GOT and DPs so as to achieve national development and poverty reduction goals. The Tanzania Country Report reviewed the Harmonization process in Tanzania culminating in the development of the JAST and assessed implications of Bank participation in this process.
2. A key characteristic of the JAST is the GoT's determined leadership in the ongoing JAST process, coupled with DPs commitment to fulfil their obligations under the Paris Convention. The JAST is the object of a significant participatory process including its review by both Parliament and Cabinet. Though consensus has yet to be reached among DPs on key issues such as DoL, and considering a transition period will be needed before attaining DBSL levels desired by the GoT, progress continues to be steady. However, the comprehensive nature of the Tanzania JAS approach is requiring more time than initially expected to resolve issues at the various levels of discussion: Partner to GoT; Partner to Partner; and within partner institutions harmonization. These delays postponed the processing of Bank projects under ADF X to Tanzania in 2005. A CSP Update has since allowed for a DBSL (50 million UA) to go forward with other projects to follow in 2006.
3. Though the general donor view is that the JAST should reduce transaction costs in the medium to long term, field data indicates that JAST could nevertheless entail greater transaction costs in the short term than simply preparing CSPs according to the Bank's pattern and timetable as in the past. In its development stage, the JAST requires intensive donor coordination. It takes longer to process. This increases the complexity of reaching consensus on JAST content, timing, etc. which could prevent the Bank from adhering to its disclosure constraints within the prescribed timeframes.
4. "Lead" and "active or delegating" partnership arrangements have already been initiated in most sectors. AfDB does not appear to be Lead Partner in any sector/issue at this time. The CO is promoting Bank presence in the Transport complemented by GBS. Other sectoral interventions on a project basis could be considered on merit, case by case. Over time, the GoT and Development Partners have agreed to continue jointly reassessing the adequacy of existing division of labour arrangements, taking into account and adjusting to possible changes in Development Partners' comparative/competitive advantages or changing Government needs.
5. The TZCO has been monitoring and informing Bank Headquarters regularly on the JAST process in Tanzania. These efforts in the field received inadequate technical support from HQ on JAS-related issues raised in Development Partner Group meetings. This could in part explain that two thirds of donors interviewed consider AfDB participation in overall Ha process to be unsatisfactory so far. Another reason may be the Bank's late arrival / participation in the JAST process.

6. As the Bank's current Direct Projects Funding commitments are over five times the amounts disbursed through DBSL in 2004, moving from a project-oriented financial institution to a full JAST player providing increasing amounts of will require substantial changes in the way the Bank operates. Becoming a credible JAST partner will mean finding the right niche among the different types of partnerships which are rapidly evolving on the ground.
7. Moving forward, a key issue for the AfDB will be the need to be more selective in its areas of intervention and to seek to develop a comparative and/or competitive advantage relative to other donors. The Country Report provides the following recommendations as the Bank pursues its Ha effort in Tanzania:
8. The country team, working in close collaboration with the Tanzania CO, should develop a strategy to become a full JAST player. Key issues to be addressed should include:
  - an assessment of how the JAST will influence/impact on current Bank operations in Tanzania;
  - how the Bank will become more selective in its areas of intervention;
  - measures needed to develop a comparative and/or competitive advantage relative to other donors
  - TZCO presence as a venue to bring the Bank closer to the GoT, and
  - delegating authority to country office, empowering CO to make certain decisions on the ground.
9. The Bank should develop flexibility and simplify its policies, procedures, and practices to make them more JAST friendly. Criteria for the procurement of goods and services should be reviewed in order to resolve the persistent problem regarding country of origin of goods and services.
10. The Bank should develop incentives to promote the Country Team's effective participation with other partners, in the implementation of creative aid delivery and management modalities in Tanzania.
11. GOT needs to be clearer on the extent of its current capacity to deliver on JAST and how long it will take to reach the required levels.

## 1. INTRODUCTION

1. Aid to Tanzania is currently at an unprecedented level, more than double its real value in the early 1990s<sup>1</sup>. The AfDB is the 11<sup>th</sup> largest donor<sup>2</sup> and ranked in the top quarter among all contributors present in Tanzania. This makes the Bank a significant donor, but a relatively small player in terms of overall aid flow to the country which accounted for about 45% of the GoT budget in 2005<sup>3</sup>.

2. Considering Tanzania receives aid from over 40 countries, in addition to international organizations and other international financial institutions, the AfDB provides less than 3% percent of the total aid flows on annual basis. Bank projects, policy advice and dialogue in Tanzania therefore complement numerous other initiatives led by different countries/donors. This translates into a multitude of projects, sets of procedures, and different conditionalities. A study by DCI<sup>4</sup> observes that certain sectors and thematic areas in Tanzania appear to be overcrowded with donors. For example, 23 Development Partners (DPs) are engaged directly in the health sector, 20 in education, 18 in water, 17 in governance, and 16 in HIV/AIDS. The burden on GoT of coordinating these activities is high, particularly where different funding modalities are used simultaneously by each DP. The large number and diversity of partners can at times inhibit constructive dialogue, and is prompting GoT and DPs to rationalize both the number of donors per sector, and the number of sectors per donor in view of achieving enhanced development effectiveness.

3. In line with GoT efforts and its own commitments to the on-going international harmonization agenda<sup>5</sup>, the Bank is increasing its involvement in Coordination-Harmonization in Tanzania. The AfDB is currently bringing its support to the Joint Assistance Strategy (JAST), which articulates a harmonised development financing response to Tanzania's Poverty Reduction Strategy. Though the JAST approach presents significant opportunities to rationalize aid in Tanzania, it will likely also raise challenges and possible trade-offs for the Bank. This paper examines how the JAST process has worked so far in Tanzania and attempts to draw lessons for the Bank going forward.

### 1.1 Objective:

The objective of the study is to review the Harmonization process in Tanzania culminating in the development of a Joint Assistance Strategy. Implications of Bank participation in this process is also assessed. The study reviews the extent of participation and the different roles of various stakeholders focusing on:

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<sup>1</sup> Tanzania GBS Evaluation, 2005.

<sup>2</sup> Based on net disbursements 1996-2004 (OECD-DAC data).

<sup>3</sup> In 2005 aid amounted to just over \$1 billion out of the national budget of \$2,235 billion.

<sup>4</sup> "Mapping Exercise of Interventions of the Likeminded DPs in the Context of the Tanzania Joint Assistance Strategy (JAS)", DCI paper, October 2004. The study identified 1,220 'projects' funded by 42 partners and considered issues in rationalising them. Quoted in DPG paper on Division of Labour, 2005.

<sup>5</sup> Rome (2003), Marrakech (2004) and Paris (2005)

- The usefulness of the JAST process to establish more effective Country assistance programs;
- The potential of the process to reduce transaction costs through common implementation and monitoring ;
- The extent to which JAST process and content are consistent with relevant Bank strategies as well as with accepted alignment and harmonization principles;
- The effectiveness of the Bank’s role in the JAST process;
- Opportunities, risks, and costs associated with the ongoing JAST process; and
- Lessons to be drawn for ADB’s participation in current and future JAST.

## 1.2 **Methodology:**

A four-step approach was used in this study. A desk review in Tunis was followed by a field mission to Tanzania which was conducted in December 2005. Semi-structured interviews and focus-group sessions were held with JAST process stakeholders in both Tunis and in the field. A total of seven donors (including the AfDB) completed questionnaires as well as three GoT ministries. Interview results were used to supplement the information obtained through file reviews in Tunis and in Tanzania. Annex 1 illustrates key survey results.

## 2. **THE HARMONIZATION / JAST PROCESS**

2.1 Tanzania experienced a period of difficult relations with Development Partners which ended in the mid 1990s<sup>6</sup>. A commission of independent advisors, led by Professor G. Helleiner was asked to develop recommendations on how to improve the aid relationship in Tanzania. The recommendations of the “Helleiner Report” which was jointly adopted by the Government and Donors in 1997, promoted GoT ownership and leadership of the development process, along with harmonization of aid by donors. In response to Helleiner Report the Government of Tanzania initiated a series of discussions with development partners.

2.2 This set in motion the process of building a new relationship which evolved into the Tanzania Assistance Strategy (TAS) in 2002. The TAS served as the medium-term framework for development co-operation, aiming to strengthen aid coordination, harmonisation and alignment as well as national ownership and Government leadership of the development process. Through the TAS, progress in the following four priority areas was made between 2002 and 2005: increasing the predictability of aid flows, integrating external resources into the Government budget and Exchequer system, harmonising and rationalising processes, and improving national capacities for aid coordination and external resource management<sup>7</sup>. In addition, some overlapping and duplicative processes were re-organised and streamlined around the national budget and poverty reduction strategy processes. Development Partner missions were also reduced<sup>8</sup>.

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<sup>6</sup> Poor Aid and Loans management by the Government was a key source of the problem which led to a suspension of substantial amounts of aid and credits by donors and creditors.

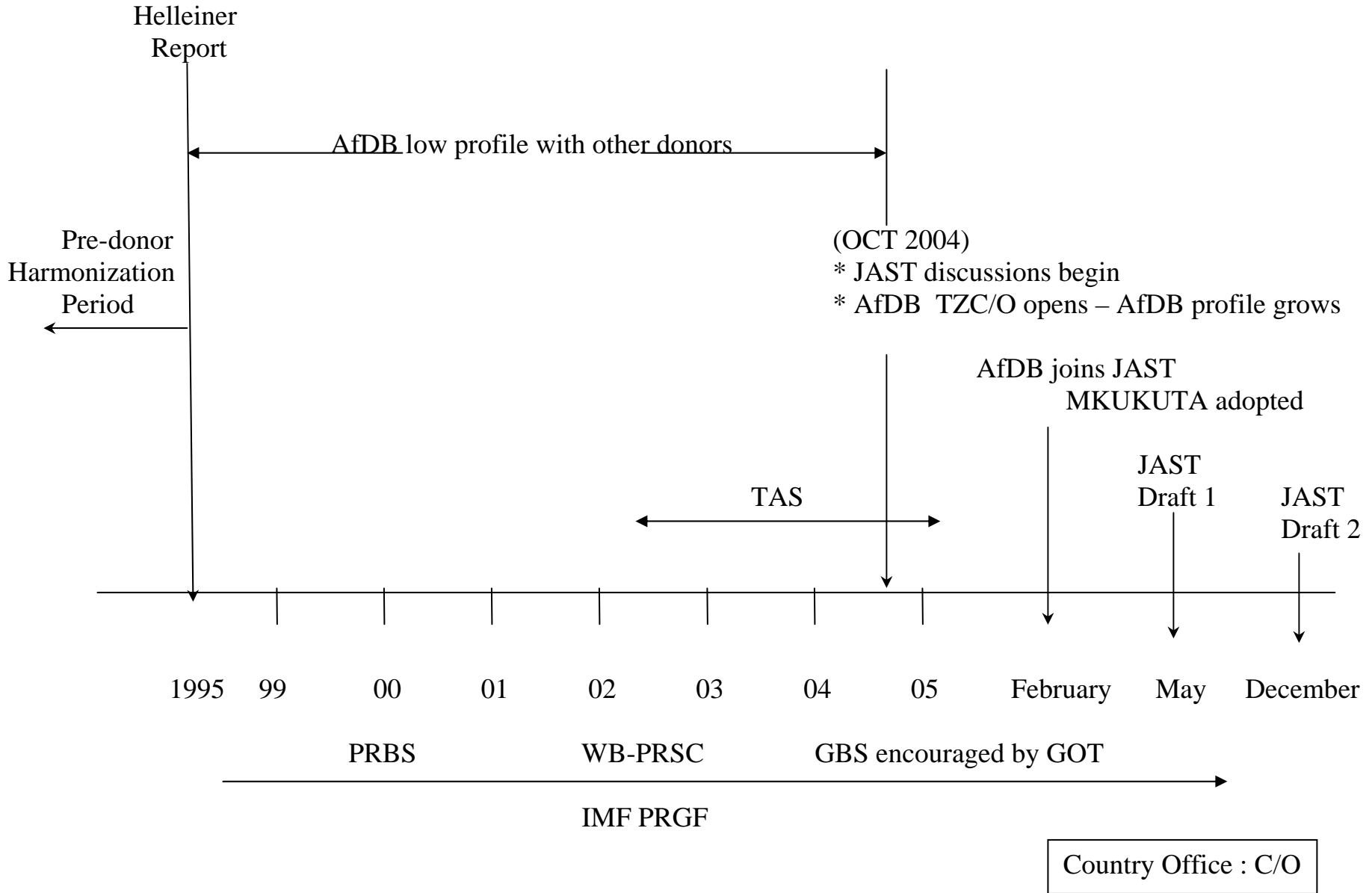
<sup>7</sup> Enhancing Aid Relationship in Tanzania, IMG and DPG Report, 2005.

<sup>8</sup> For example, donors now refrain from programming missions in consultation with the GoT during key national planning periods.

2.3 In anticipation of the end of TAS, the Government of Tanzania (GoT) led a process to develop a Tanzania Joint Assistance Strategy (JAST) initiated in mid-2004. The JAST (still in draft form) is expected to move the TAS to a higher stage by consolidating national ownership and leadership in the development process, and reducing transaction costs by further enhancing harmonization, and alignment to national priorities and national systems.

2.4 Figure 1 on the following page illustrates the Harmonization / JAST chronology starting with the Helleiner report and indicates key milestones in the overall harmonization process. It illustrates the long gestation period leading to the current efforts to develop a JAST document.

# TANZANIA HARMONIZATION / JAST CHRONOLOGY



2.5 As illustrated in Figure 1, the harmonization process in Tanzania is a mature one<sup>9</sup> with the development of the JAST progressing, albeit at a slower pace than initially envisaged. Following its approval by Cabinet, JAST is expected to replace the country assistance strategy of each donor.

**Box 1**  
**The JAST<sup>10</sup>**

The Joint Assistance Strategy is a national medium-term framework for managing development co-operation between the Government of Tanzania (GOT) and Development Partners (DPs) so as to achieve national development and poverty reduction goals. It however also outlines the role of non-state actors (NSAs)<sup>11</sup> to the extent that they contribute to the successful implementation of the Strategy.

The JAST will span a renewable cycle of five years and outline the main objectives and broad arrangements of the development partnership. It will be complemented by an Action Plan that specifies concrete activities, targets and time frames in implementing JAST and a monitoring framework with indicators to measure GOT and DP performance.

The JAST will be implemented at all levels of the GOT for all aid relations with DPs. DPs will adopt the Strategy as a basis for guiding the management of their development co-operation with the GOT. Bilateral agreements and country assistance strategies will be brought in line with the JAST and will specify concrete arrangements in implementing the JAST for individual Partners. All partners recognise that implementing JAST is a gradual process of moving towards higher levels of development co-operation.

2.6 In February 2005, the GoT approved the National Strategy for Growth and Reduction of Poverty (NSGRP – known as MKUKUTA in Swahili). This is the second national organizing framework for putting the focus on poverty reduction high on the country's development agenda. The NSGRP builds on the first Poverty Reduction

<sup>9</sup> Denmark, Germany, Ireland, the Netherlands, Switzerland, and IDA support a Sector Wide Approach (SWAp) under the Health Sector Development Program (HSDP). These donors are undertaking a joint procurement, financial management and disbursement assessment for multi-donor pooling of funds for the HSDP. In the education sector under the Primary Education Development Program, Canada, EC, Ireland, the Netherlands, Norway and Sweden provide pooled funding, while Sweden and the WB provide direct budget support. A SWAp is emerging in agriculture with Denmark, EC, Japan, Ireland and the WB as donors. Denmark, DFID, EC, Finland, Ireland, the Netherlands, Norway, Sweden, UNDP/UNCDF provide resources through a Common Basket Fund to finance the implementation of the Local Government Reform Program (LGRP). Nine bilateral agencies and the EC have adopted a common Performance Assessment Framework with focus on results, improved public expenditure management, and capacity building. (Source: OECD/DAC, 2005).

<sup>10</sup> Tanzania Joint Assistance Strategy, Second Draft, October 2005.

<sup>11</sup> Non-state actors are local communities, civil society organisations (CSOs) including non-governmental organisations (NGOs), community-based and faith-based organisations, academic and research institutions, the private sector and the media.

Strategy Paper (PRSP - 2000/01 -02/03) and is expected to last 5 years, i.e. from 2005/06 to 2009/10. The strategy requires increased commitment and resources from domestic stakeholders and development partners in the medium term as captured in the JAST. As the MKUKUTA is an accountability framework between the GoT and its people, likewise, the proposed JAST is an agreement between GOT and donors, whereby donors untie aid in exchange for best governance practices, a fully transparent financial management system and increased GoT accountability. The JAST has no legal status and as such has no binding implications for donors though it will be a binding national strategy for the Government of Tanzania<sup>12</sup>. It is expected donors will develop their own bilateral arrangements in line with the JASZ to be used as a legal basis for disbursements.

2.7 Because of the comprehensive nature of the JAST approach, the process is taking longer than expected<sup>13</sup>. The JAST is characterized by strong GoT leadership and widespread donor support. This makes the exercise quite comprehensive in its effort to resolve issues before finalization (e.g. JAST is simultaneously attempting to address/resolve financial management issues that arise during the process). Two drafts JAST have been produced by Ministry of Finance. A third draft is expected to appear in first quarter of 2006 with an Action plan to follow thereafter.

2.8 There are provisions in the JAST for regular GOT and DPs regularly monitoring and evaluation of their performance relative to the jointly agreed indicators, targets and actions outlined in the JAST monitoring matrix and the JAST Action Plan respectively in order to assess their progress towards achieving JAST objectives and commitments. JAST indicators, targets and actions will be drawn from six broad monitoring categories and also reflect the internationally agreed Paris Declaration indicators as adapted to the Tanzanian context<sup>14</sup>.

### **3. JAST AND EFFECTIVE COUNTRY ASSISTANCE PROGRAMMING**

1. A key goal of the JAST process is to establish more effective Country assistance programs leading to greater development effectiveness. While it is too early to judge its effectiveness in this regard, donors are beginning to develop an appreciation of the process so far. Overall, the JAST process is judged to be substantially different from donors' previous CAS processes: 40% of donors interviewed said JAST was substantially different, while 60% said JAST was highly different than what they did previously. All donors were well prepared to participate in the JAST: 40% of respondents said they were substantially ready and 60% said they were highly prepared. They viewed their own participation in the process as highly satisfactory (84%). Donors also said that other donors preparation was satisfactory (50%) or highly satisfactory (50%). Over two thirds of respondents considered the GoT participation to be highly satisfactory as well.

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<sup>12</sup> JAST Second Draft, Oct. 2005, p.21.

<sup>13</sup> Previous expectation was to have JAST by end of 05, but now outcome planned for sometime in 2006.

<sup>14</sup> Op.cit. p.23

2. The JAST has the merit of fostering simultaneous discussion on country assistance programming at three levels of Harmonization:

- Partner to GoT harmonization
- Partner to Partner harmonization (i.e. division of labour)
- Within partner institution (reconciling competing interests at HQ)

3. Each of these levels of discussion on harmonization are now examined in turn highlighting outstanding issues to be resolved if the JAST is to become an effective instrument of country assistance programming.

### 3.1 **Partner to GoT Harmonization**

3.1.1 GoT leadership and ownership of JAST process has been strengthened with the accord/support of the Development Partners Group. However, integration of national processes with sectors and local government remains a concern. JAST appears to some observers as a rather centrally driven exercise, led by the Ministry of Finance.

3.1.2 Another concern is that formulation of priorities and processes in TZ Mainland and Zanzibar are not harmonized. Zanzibar has yet to develop its second PRS, whereas the NSGRPP is already approved in TZ Mainland

3.1.3 DPs support the JAST principle of channelling aid through the Tanzanian national procurement and auditing systems<sup>15</sup>, but some DPs' including the AfDB regulations might preclude this. Other donors are concerned with in-country studies that highlight significant shortcomings in the GoT systems to make this possible.

3.1.4 GoT and donors are also discussing how gaps in national institutional capacity, and in the provision of technical assistance will be addressed. DPs will maintain their support to programmes such as the Public Financial Management Reform Programme to strengthen GoT capacity. However, weaknesses in GoT systems could limit DPs' readiness to increase GBS commitments in the short and medium term. Mainstreaming of Tanzania's public sector reforms in sector dialogue will be key to building institutional capacity in key areas such as pay reform, procurement and financial management.

3.1.5 The Government of Tanzania is committed to more effective division of labour among and between central and line ministries and local government authorities. It intends to define each Government agency's role and responsibilities, in particular with regards to implementing the NSGRP/ZPRP, and assign lead Government agencies in each sector or cross-cutting/thematic area to supervise and coordinate the activities of other involved agencies. Classification of sectors, thematic/cross-cutting areas and sub-sectors in line with the NSGRP/ZPRP to facilitate an effective division of labour should also be developed.

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<sup>15</sup> This is to be monitored under the Paris Indicator 5(b) whereby the gap in the proportion of flows to the public sector not using Tanzania's procurement system is to be reduced by one to two thirds.

### 3.2 **Partner to Partner Harmonization**

As the need for a more appropriate division of labour between DPs is widely recognized, many DPs in Tanzania plan over the next two years to reduce the number of sectors in which they operate. At sector level, several groups have already begun mapping all DP interventions in the sector as a means of dividing labour more sensibly. Most bilateral donors have already begun self-assessments alone or in groups in order to formulate a first draft proposal for division of labour (DoL) to MoF through the DPG. These issues are dealt with in greater detail in the next section.

### 3.3 **Harmonizing Within Partner Institution**

3.3.1 Because C/Os / Embassies are close to Harmonization developments which can proceed quickly, they tend to become advocates of these initiatives with their respective HQs. This was the case for the AfDB following the opening of our CO in October 2004. Explaining significant new developments on the ground to HQ is a reality for most donors, not only for the AfDB. HQ/Capitals tended to have stronger reservations about JAST process than C/Os / Embassies in Tanzania which have almost daily contact with GoT and other donors. Some donors are still referring to headquarters on issues such as selectivity and aid modalities. This makes it difficult for some agencies to adapt their aid to local context including the requirements of the JAST

3.3.2 JAST also implies the removal of donor funded PIUs during the phasing out period to more centralized but well established implementation unit within the sector GoT Departments

3.3.3 In terms of development planning and programming procedure, the JAST appears to be, as anticipated by donors and the government, a good planning assistance tool for aid delivery reflecting the agreed to harmonization, coordination and alignment principles.

## 4. **BANK'S ROLE IN THE JAST PROCESS**

Donor coordination in Tanzania is considered one of the best in RMCs. Harmonization has brought together bilateral donors into a cohesive group under the umbrella of the DPG which also includes the AfDB and other multilateral institutions in Tanzania. Coordination in most sectors is already strong and other donors and Government meet regularly to discuss sector policy issues. A Development Partners Group (DPG) was established to discuss policy issues, avoid duplication of efforts and decide priority areas.

#### 4.1 **Bank Strategy and Portfolio**

4.1.1 The opening of the CO in 2004 prompted the Bank to actively join the Harmonization movement in Tanzania. Considering that the last CSP came to a close at the end of 2004, the Bank Group consulted the GoT in early 2005 on the issue of formulating a new CSP that would guide Bank Group operations for the period 2005-2007. At that time, it was agreed that the Bank postpone the preparation of its CSP, and fully participate in the preparation of the JAST along with Tanzania's other major development partners. Bank position in March 2005 to postpone developing its own CSP was consistent with that of the majority of other donors in Tanzania. However, some donors (WBG, DFID, Ireland, Sweden, etc.) have recently changed their position begun developing CASs to complement JAST, notably with regards to risk management (i.e. 'What if?' scenarios) and to address issues which they consider outside JAST (e.g. regional integration).

4.1.2 The Bank has yet to develop a CSP Update or some other interim measure to facilitate programming awaiting the JAST outcome. In the meantime, there are currently 16 ongoing AfDB operations in Tanzania amounting to a total commitment of UA 278 million of ADF resources. Transport is the largest beneficiary accounting for 32% of total commitments, followed by Social Sector and Agriculture both at 24%, and Public Utilities at 20%. There are two projects, the Second Poverty Reduction Support Loan (UA 50 Million) and RWSSI (UA 50 million), that were affected by the delay in the finalization of the JAST, but which have since been approved by the Board.

4.1.3 Because of the bilateral donors presence simultaneously in the JAST and on AfDB Board, bilateral donors could have increasing influence in shaping the Bank's position in the JAST process. This has been a key consideration for the TZCO which has been leading on the JAST so far. TZCO participates in DPG meetings notably when JAST is the central agenda item and provides written and oral comments as appropriate<sup>16</sup>. The TZCO has also been informing Bank Headquarters regularly on the JAST process in Tanzania<sup>17</sup>. Despite these efforts, the CO resident representative claims he has inadequate technical support from HQ on key issues raised in DPG meetings and that he responds as best he can from Dar es Salaam (e.g. on the need of a CSP Update or some other interim measure to facilitate programming awaiting the JAST outcome). This could in part explain why two thirds of donors interviewed consider AfDB participation in JAST process to be unsatisfactory so far. Other reasons include the Bank's late arrival / participation in the JAST process the perception by some other donors that the Bank could be more candid about issues it has concerning JAST.

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<sup>16</sup> For example, the TZCO delivered the Bank's position in support of Tanzania JAST at the High Level Meeting held in April 2005. Comments on the draft JAS document were also included in the "DPG Comprehensive views" sent to the GoT in 2005.

<sup>17</sup> Tanzania Country Team, 19<sup>th</sup> July 2005, Tunis.

## 4.2 Modalities for delivering Development Assistance

4.2.1 The GOT receives external resources under three modalities, namely General Budget Support (GBS), Basket Funds (BF), and Direct Project Funds (DPF).

GBS is the preferred form of GoT aid modality and MoF is planning for GBS to reach 55% of total aid in FY07/08<sup>18</sup>. Bank GBS to Tanzania is currently channelled through the Poverty Reduction Budget Support (PRBS) programme<sup>19</sup>. Financed by 11 bilateral development partners in addition to the E.C., World Bank and African Development Bank, the PRBS disbursed approx. \$370 million ODA during FY 2003/2004<sup>20</sup>. The AfDB share was 50 million UA or about 18% of the total amount. Together with HIPC relief, GBS contributes 20% of public expenditure. Despite this, however, GBS is not yet a dominant aid modality. 80% of development spending is still funded by donor projects<sup>21</sup>.

4.2.2 Considered sector by sector, only education and health show a decisive shift away from project funding. This reflects in part the increasing popularity of common basket funding. According to a recent evaluation on GBS, since 2000/01, common baskets have accounted for an increasing proportion of non-programme aid flows, accounting for about a third by 2002/03<sup>22</sup>.

4.2.3 GBS role has been to facilitate a nationally-driven reform process resulting in a large growth in government discretionary spending and a major expansion in health and education services. A recent evaluation of the GBS experience in Tanzania shows there are few signs of improved efficiency of public spending or of long-term obstacles to service quality being addressed. It concludes that GBS in Tanzania has not had all the positive effects expected, some of which are necessarily long-term, but adds that ‘the gains that have been made are important and would not have been so effectively facilitated by any other aid modality’<sup>23</sup>.

4.2.4 As the Bank’s DPF commitments are over five times the amounts disbursed through GBS in 2004, moving from a project-oriented financial institution to a full JAST player providing increasing amounts of GBS will require substantial changes in the way the Bank operates as discussed below.

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<sup>18</sup> Budget support’s share of total aid was 34% in FY04/05, increasing to 41% in FY05/06, 50% in FY06/07 and 55% in FY07/08.

<sup>19</sup> This programme provides untied budget support to Tanzania using a unified framework and a common dialogue in support of the poverty reduction strategies of the GoT.

<sup>20</sup> This represented around 14% of total GoT expenditure.

<sup>21</sup> Joint Evaluation Of General Budget Support Tanzania 1995 - 2004

<sup>22</sup> However, despite AfDB’s total commitment of 278 million of ADF resources to Direct Project Funding (DPF) the Bank does not currently contribute to basket funding or to SWAPs in Tanzania.

<sup>23</sup> Evidence from Tanzania. Summary note, p.1

### 4.3 Division of Labour Among Development Partners

4.3.1 The GoT (through its Ministry of Finance) in close consultation with Development Partners and other stakeholders is leading the process of rationalising Development Partners' division of labour. This could translate into an assessment of the donors and their comparative advantages<sup>24</sup> and competitive advantage<sup>25</sup> in the different sectors and overall. Should such an assessment occur, it could be of concern for the AfDB since the TZCO expects to encounter some difficulties in adhering to JAST. As a regional multilateral financial institution, the Bank has in place structures and processes specifically to ensure effective delivery of financial support to its shareholders, -Tanzania included. In a recent memo, the TZCO notes that: 'by virtue of it being a project-oriented financial institution, funds advanced to Regional Member Countries (RMCs) are ring-fenced and subject to close supervision. By so doing, the Bank has established structures, processes, and has in place requisite staffing for effective execution of its obligations, particularly in assisting RMCs in programs/projects preparations/appraisal, supervision and monitoring. In view of this mode of operating, the adoption of some of the TJAS principles may take some time'<sup>26</sup>.

4.3.2 Moving from a project-oriented financial institution to a full JAST player means finding the right niche among the different types of partnerships which are rapidly evolving on the ground. Two types of partnerships are being discussed in Tanzania<sup>27</sup>. Lead partnerships are the most commonly cited type of partnership in the JAST draft documents. Under these arrangements, one DP appoints another to speak on behalf of the DP group as a single focal point for policy dialogue with GoT. These arrangements might include pooling of DP funds, either bilaterally between two partners, or in a larger basket. In cases where project-based funding prevails, lead partner arrangements tend to be less viable, since project dialogue is usually still required on a bilateral basis. Lead partner arrangements already exist in Tanzania in health and education, and in the Elections Basket and other lead partner arrangements are currently being developed.

4.3.3 They are closely linked in many cases to silent partnership arrangements, whereby one or more partners agree to remain silent, delegating authority to another agency to speak partly or entirely on its behalf<sup>28</sup>.

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<sup>24</sup> *Comparative advantage* may be defined as the area of activity in which an agency is considered to be at its most effective in relation all other activities in which that agency is engaged. All agencies therefore have a comparative advantage (i.e. the thing itself and others consider that it does best).

<sup>25</sup> *Competitive advantage* is defined as a pre-eminent strength of any single agency in a particular activity, in comparison to other agencies engaged in the same or similar activity. Therefore, whilst all agencies possess a comparative advantage, not all necessarily possess competitive advantage.

<sup>26</sup> AfDB contribution to DPG Comprehensive Views Note, 2005.

<sup>27</sup> These are taken from the DPG Note on DOL, 2005. Delegated cooperation is another type of formal cooperation agreement in which a DP channels its funds through another DP. Delegation may also apply to specific, non-financial parts of the programming cycle where efficiencies can be realised (e.g. through joint consulting or analytical work, monitoring and review). Sometimes all functions are delegated. The PRBS in Tanzania provides an example, through the use of multidisciplinary technical teams that work for the group as a whole.

<sup>28</sup> *ibid*

4.3.4 Other factors to be taken into account by MoF as selection criteria for Development Partner's sectors or thematic areas of support are:

- Development Partner agency capacity;
- the appropriate total number of Development Partners in a sector or thematic area, taking into account the size, nature, needs and capacity of the sector or thematic area of concern;
- established relationships with Government, Development Partners and other stakeholders;
- Development Partners' willingness to cooperate with each other in a particular sector or thematic area;
- Development Partner headquarter mandate;
- decentralised authority enabling field offices to make decisions; and
- willingness to sustain support and invest in the agency's competencies in the long-term.

4.3.5 With regards to taking on a leading role, factors to consider in addition to the above are:

- Development Partner organisational capacity to assume leadership;
- other Development Partners' willingness to recognise and trust a Development Partner as leader; and
- the distribution of lead responsibilities among Development Partners so as to facilitate equitable sharing of work.

4.3.6 "Lead" and "silent" partner arrangements have already been initiated in most sectors. AfDB does not appear to be Lead Partner in any sector/issue at this time. A key sector for the Bank is infrastructure (Transport) for which the EC is lead partner. Finland is lead partner on Water and so on... Though not lead partner, C/O is promoting Bank presence in the Transport complemented by GBS. Other sectoral interventions on a project basis could be considered on merit, case by case. Over time, the GoT and Development Partners have agreed to continue jointly reassessing the adequacy of existing division of labour arrangements, taking into account and adjusting to possible changes in Development Partners' comparative/competitive advantages or changing Government needs.

4.3.7 Moving forward, a key issue for the AfDB will be the need to be more selective in its areas of intervention and to seek to develop a comparative and/or competitive advantage relative to other donors.

## 5. **OPPORTUNITIES, RISKS, AND COSTS**

### 5.1 **Opportunities**

5.1.1 As discussed in previous chapters, the JAST process offers an opportunity to further harmonize aid efforts. In order to meet the MDGs in the designated timeframe, the AfDB is paying increased attention to how development assistance is delivered and managed. The JAST provides opportunities to:

- strengthen country ownership and government leadership; enhance AfDB support of Tanzania's PRSP process; augment the overall coherence of poverty reduction policies; and foster greater national development management capacity.

5.1.2 Seizing on these opportunities offered by harmonization should ultimately enhance aid and development effectiveness to achieve MDGs.

### 5.2 **Risks**

5.2.1 The main risks arising from JAST may be classified as: political, institutional & operational, and fiduciary risks<sup>29</sup>: The following paragraphs present these risks as identified in the draft JAST. Mitigating measures proposed by DPs and the GoT are presented at Annex 2.

#### Political Risk

5.2.2 Political risk relates to the non-implementation of JAST or reversal of the GOT's commitment to its implementation due to political instability or other adverse political events, changing political leadership or problems of political governance. This includes the GOT's move away from its stated goal of working towards national development and poverty reduction. Political risk also includes the risk that different interest groups within Government and domestic stakeholders will not support the JAS.

5.2.3 Political risk also occurs on the part of DP country governments, for example through government change or other internal political events that weaken or reverse commitment to the JAST or to previously promised funding support.

#### Institutional and Operational Risk

5.2.4 The GOT at national, sector and local level and DPs at country and headquarter levels face institutional and operational risks in implementing the JAST, as the Strategy is highly demanding of both GOT and DP capacity. It requires substantial changes in the way things are done including improvements in individual, organisational and institutional capacity and the incentive structure that motivates people and organisations.

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<sup>29</sup> This classification is taken from the draft JAST, May 2005.

Some in-country studies have even highlighted significant shortcomings in the GoT systems.

5.2.5 JAST also requires that DP agencies change their practices as well as their attitude toward the GOT and development co-operation, adopt a flexible approach to their development operations and accept that doing business in Tanzania may differ from other countries.

5.2.6 In addition, as the JAST also calls for intensive donor coordination, thereby taking longer to process, it may negatively affect the processing of Bank loans and grants. The Bank's disclosure policies may need to be adjusted as JAST will be owned by several participating donors. This increases the complexity of reaching consensus on JAST content, timing, etc. which could prevent the Bank from adhering to its disclosure constraints within the prescribed timeframes<sup>30</sup>.

### Fiduciary Risk

5.2.7 Fiduciary risk arises from public expenditures: (a) not being properly accounted for, (b) not being used for its intended purposes, and (c) not representing value for money. Fiduciary risk covers the budgetary process, effectiveness of the financial and legal system and other areas. The GOT proposes to take ownership over fiduciary risk assessment and establish or strengthen appropriate systems for this purpose as weaknesses in GoT systems are likely to limit DPs' readiness to increase GBS commitments in the short and medium term. DPs are invited to harmonise their fiduciary requirements and safeguards.

### Other Risks

5.2.8 Large amounts of money in Global Funds and presidential initiatives which are earmarked for purposes and modalities that do not fit into the policy or planning framework pose a challenge. GoT considers that these initiatives are not geared towards the specific country and country systems; do not take much account GoT's demand, sector strategies, or modes of government/donor dialogue as they are highlighted in the JAST. These global initiatives may also in some cases contradict donors policies in the field.

## **5.3 Costs**

5.3.1 The potential of the JAST process to reduce transaction costs through common implementation and monitoring is assessed by using responses obtained from donors

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<sup>30</sup> For example, two ADB projects were affected by the delay in the finalization of the JAST (the Second Poverty Reduction Support Loan (UA 50 Million) and Rural Water Supply and Sanitation Initiative (UA 50 million)). These required special measures to obtain Board approval in 2005.

(including the AfDB) on their views in this regard, as there is as yet little empirical evidence to determine the extent of transaction cost reductions so far.

5.3.2 All donors interviewed said the JAST process is taking longer to complete than the preparation of their previous country programme/strategy. For two thirds of respondents, the amount of additional time was substantial whereas for the other third it was a modestly longer process. The degree of variation in staff time is a function of the level of involvement in key JAST activities (e.g. chair/participation in DPG, GBS, etc.). The additional staff time required by donors to participate in the JAST varied as shown in Table 1:

**Table 1: Extent of extra donor staff time required for JAST process**

Staff time	Extent of extra staff time (%)				
	Negligible	5-25	25-50	50-100	>100
% of donors		10%	40%	10%	40%

5.3.3 All donors registered additional costs (preparation, coordination, meetings, etc) but at varying degree as indicated in Table 2.

**Table 2: Extent of extra transaction costs required for JAST process**

Extra transaction costs	Extent of extra transaction costs (%)				
	Negligible	5-25	25-50	50-100	>100
% of donors		40%	20%	40%	

5.3.4 When asked to what extent the JAST process reduces or increases the government transaction costs, 85% of donors agreed that the JAST reduced cost to GoT, a view shared by the Ministry of Finance. The remaining 15% of donors said it represented only a modest increase in GoT transaction costs. From a Bank perspective, it remains to be seen whether the JAST will entail greater or reduced transaction costs than simply preparing CSPs according to the Bank's pattern and timetable as in the past. The JAST requires intensive donor coordination and takes longer to process. This could negatively affect the processing of Bank loans and grants thereby increasing overall cost. However, the donor and GoT view at this time is that JAST is more likely to reduce transaction costs over time.

## **6. LESSONS / WAY FORWARD**

On the basis of the preceding discussion, this section presents lessons to be drawn from AfDB's participation in the JAST going forward on harmonization.

- The GoT's determined leadership in the ongoing JAST process, coupled with DPs commitment to fulfil their obligations under the Paris Convention bodes well for the future implementation of Mkukuta.
- However, the comprehensive nature of the JAST approach in Tanzania is requiring more time than initially expected to resolve issues at the various levels of discussion: Partner to GoT; Partner to; and within partner institutions harmonization. These delays caused programming difficulties for the Bank which could be avoided in future similar situations by being more realistic about time requirements at the outset.
- Though the general donor view is that the JAST should reduce transaction costs, JAST could entail greater transaction costs than simply preparing CSPs according to the Bank's pattern and timetable as in the past. The JAST requires intensive donor coordination. It takes longer to process. This increases the complexity of reaching consensus on JAST content, timing, etc. which could prevent the Bank from adhering to its disclosure constraints within the prescribed timeframes.
- Because of the bilateral donors presence simultaneously in the JAST and on AfDB Board, bilateral donors could have increasing influence in shaping the Bank's position in the JAST process not only in Tanzania, but also in other countries where this is also the case.
- As the Bank's current Direct Projects Funding commitments are over five times the amounts disbursed through GBS in 2004, moving from a project-oriented financial institution to a full JAST player providing increasing amounts of GBS will require substantial changes in the way the Bank operates. Becoming a credible JAST partner will mean finding the right niche among the different types of partnerships which are rapidly evolving on the ground.

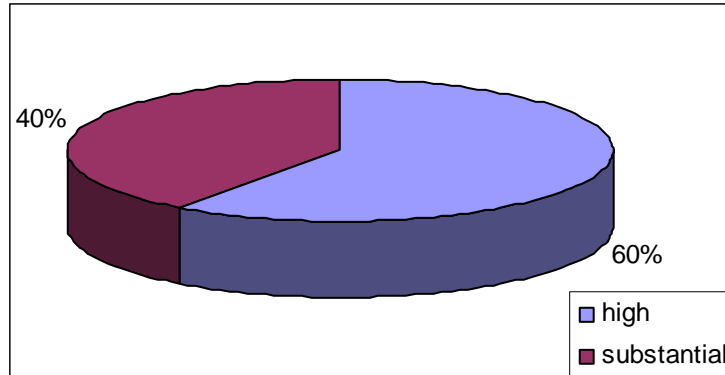
## 7. **RECOMMENDATIONS**

- The country team, working in close collaboration with the TZCO, should develop a strategy to become a full JAST player. Key issues to be addressed should include:
  - an assessment of how the JAST will influence/impact on current Bank operations in Tanzania;
  - how the Bank will become more selective in its areas of intervention;
  - measures needed to develop a comparative and/or competitive advantage relative to other donors;
  - TZCO presence as a venue to bring the Bank closer to the GoT;

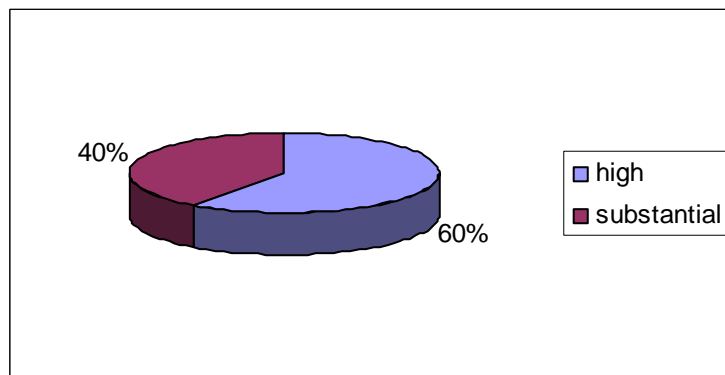
- delegating authority to country office, empowering CO to make certain decisions on the ground.
- The Bank should develop flexibility and simplify its policies, procedures, and practices to make them more JAST friendly. Criteria for the procurement of goods and services, should be reviewed in order to resolve the persistent problem regarding country of origin of goods and services.
- The Bank should develop incentives to promote the Country Team's effective participation with other partners, in the implementation of creative aid delivery and management modalities in Tanzania.
- GOT needs to be more clear on the extent of its current capacity to deliver on JAST and how long it will take to reach the required levels.

**KEY SURVEY RESULTS**

Question 1: To what extent is your previous programming/strategy process different from this initiative/process?

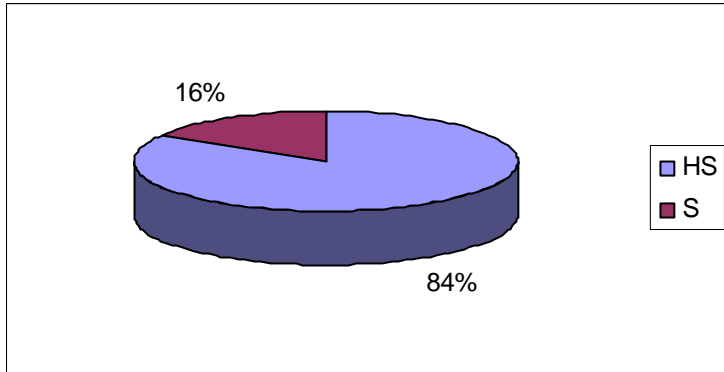


Question 2: To what extent was your organisation prepared to participate in the process?

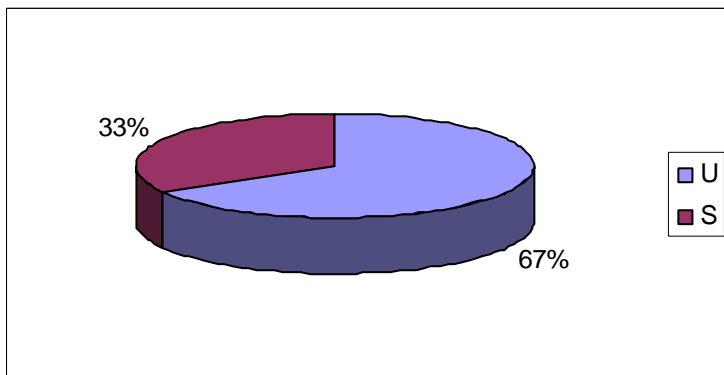


Question 3: In your opinion what is the extent of participation in the process (highly satisfactory (HS), satisfactory (S), unsatisfactory (US) or highly unsatisfactory (HUS)) of:

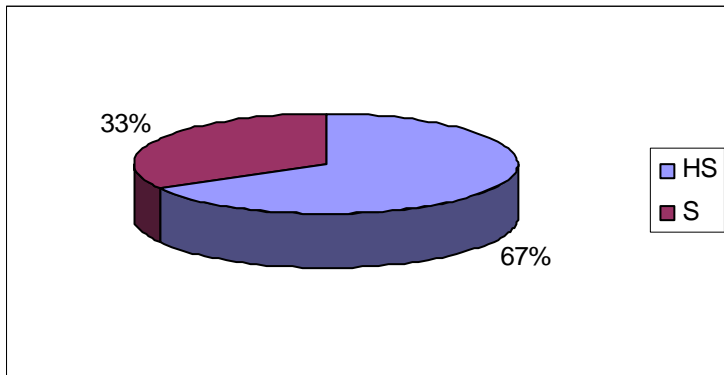
**SELF**



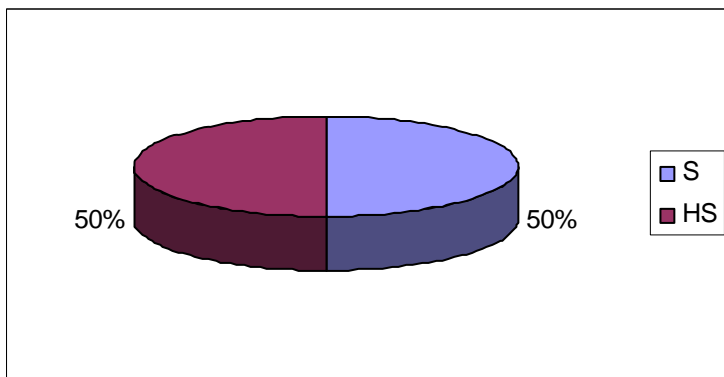
**AFDB**



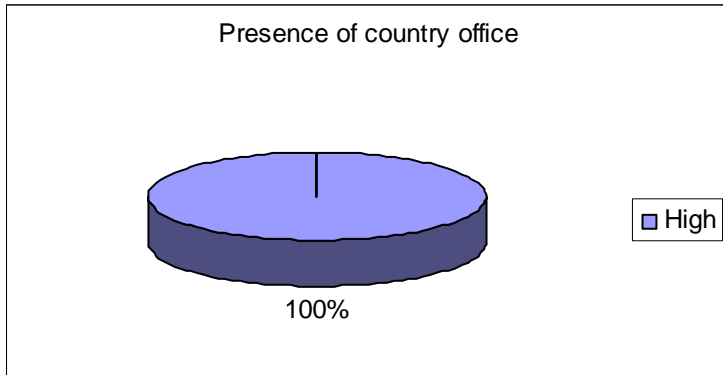
**GoT**



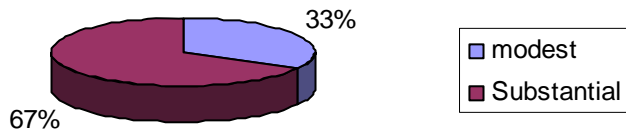
**ODPs**



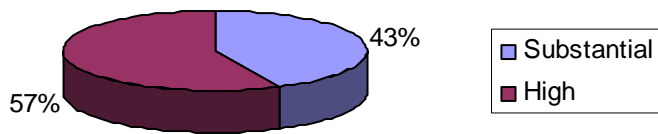
Question 4: To what extent did the following factor influence your participation (high, substantial, modest, negligible)?



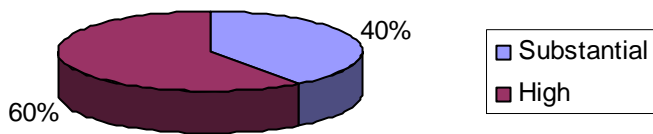
Degree of flexibility of donors in terms of preferred sector(s) of interventions



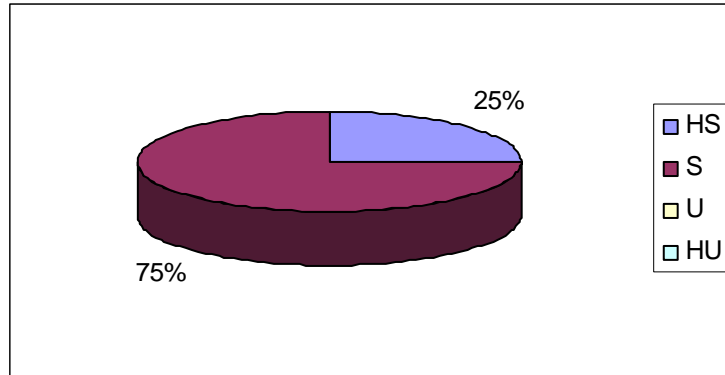
Government commitment to the process



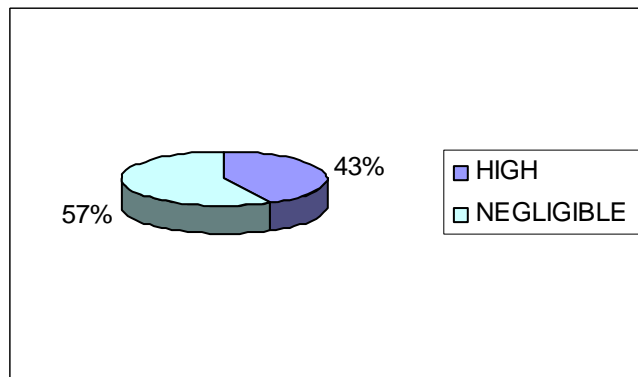
Leadership of the process



Question 5: In your opinion, do you consider the process; highly satisfactory, satisfactory, unsatisfactory or highly unsatisfactory?



Question 6: How would you rate the value added by the process so far (High; Substantial, modest; Negligible)?



## JAST Risk Mitigation Measures<sup>31</sup>

**Political risks** are addressed and mitigated in the following ways:

- (1) Cabinet approval of the JAS gives the JAS a firm political grounding and will make reversal difficult as the JAS will be a binding national strategy for the Government of Tanzania.
- (2) Divergence from JAS partnership arrangements will be dealt with through consultation and dialogue between the GOT and DPs at the appropriate level for decision-making.
- (3) The GOT is committed to improving governance and accountability, which is one of the three clusters of the NSGRP and subject of high-level dialogue between the GOT and DPs.
- (4) All levels of GOT as well as NSAs have been consulted in and have supported the formulation of JAS. Throughout the JAS implementation process, GOT and non-governmental stakeholder support will continue to be forged through ongoing awareness building and training and their participation in various consultative fora.

To mitigate the risk that DP countries or headquarters reverse their commitment to the JAS:

- (1) Bilateral agreements and country assistance strategies of DPs will be brought in line with JAS;
- (2) The GOT and DPs will engage in consultation and dialogue at the appropriate level for decision-making in case of a divergence from JAS partnership arrangements by DPs; and
- (3) DPs will take their commitment to the Paris Declaration and other international aid effectiveness initiatives seriously and will continue to advocate at headquarter and international level for adherence to these commitments.

**Institutional risks** within Government agencies, will be mitigated as the GoT shall:

- (1) Continue to raise awareness among Government officials in all MDAs, Regions and LGAs of the content, benefits and functioning of JAS;
- (2) Clearly identify and communicate their roles and responsibilities in implementing JAS;
- (3) Strengthen Government ownership and leadership of the JAS through capacity development and better horizontal co-operation among Government agencies including more effective information sharing and consensus building; as well as
- (4) Regularly monitor and review together with DPs and NSAs performance under JAS, which will allow for risks to be identified on a continuous basis.

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<sup>31</sup> Tanzania Ministry of Finance, JAST Second Draft.

The risk of DP non-compliance with the JAS and of loss of institutional memory will be mitigated by:

- (1) Better handing-over procedures,
- (2) Adequate training and agency capacity development,
- (3) Appropriate recruitment policies and staff performance assessment in line with the requirements of JAS, as well as
- (4) Greater devolution of authority from headquarters to field offices.

### **Fiduciary risk**

Measures to be undertaken by the GOT with the support of DPs to address fiduciary risk include:

- (1) Ongoing efforts to strengthen strategic budget planning and allocation as well as effective operation of the GOT's financial management and accountability systems at central, sector and local government levels under the NSGRP/ZPRP, PFMRP and LGRP;
- (2) Building an efficient and effective procurement system by implementing the Public Procurement Act 2004 so as to ensure competitive and open, decentralised procurement and cost-effective purchases in line with international standards;
- (3) Improving transparency in public spending;
- (4) Ongoing national anti-corruption measures under NSGRP/ZPRP and the National Anti-Corruption Strategy and Action Plan;
- (5) Strengthening the technical and administrative capacity of Government agencies through on-going implementation of the Public Service Reform Programme;
- (6) Open and frank policy dialogue on public financial management, accountability issues and corruption;
- (7) Monitoring and evaluation of the effectiveness of public financial management and accountability systems in the NSGRP, Public Expenditure Review and Public Finance Management Reform Process; as well as
- (8) Periodical harmonised diagnostic reviews under Government leadership within existing Government.