

**Sector Budget Support in Practice**  
**Desk Study**  
**Local Government Sector**  
**in**  
**Tanzania**

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## List of Acronyms

ASDP	Agricultural Sector Development Programme
ASLM	Agriculture Sector Lean Ministries
CBG	Capacity Building Grant
CC	City Council
CCHP	Comprehensive Council Health Plan
CDG	Capital Development Grant
CMC	Community Management Committee
CMT	Council Management Team
DADP	District Agricultural Development Plan
DALDO	District Agriculture and Livestock Development Officer
DED	District Executive Director
D by D	Decentralization by Devolution
DC	District Council or District Commissioner
DCDO	District Community Development Officer
DP	Development Partner
DPLO	District Planning Officer
ESDP	Education Sector Development Programme
FY	Financial Year
GOT	Government of Tanzania
GPG	General Purpose Grant
HoD	Head of Department
HSBF	Health Sector Basket Fund
IGFTS	Intergovernmental Fiscal Transfer System
IPF	Indicative Planning Figure
JHIRF	Joint Health Infrastructure Rehabilitation Fund
JICA	Japan International Development Agency
LGA	Local Government Authorities
LGCDG	Local Government Capital Development Grant
LGRP	Local Government Reform Programme
LLG(A)	Lower Local Government (Authority)
MC	Municipal Council
M&E	Monitoring and Evaluation
MoF	Ministry of Finance
MoEVT	Ministry of Education and Vocational Training
MoH	Ministry of Health
MTEF	Medium Term Expenditure Framework
NGO	Non-Governmental Organization
NORAD	Norwegian Agency for Development Cooperation
NRWSSP	National Rural Water Supply and Sanitation Programme
NSGRP	National Strategy for Growth and Reduction of Poverty (MKUKUTA)
OC	Other Charges
O&OD	Opportunities and Obstacles to Development
PE	Personal Emolument
PEDP	Primary Education Development Plan
PMO-RALG	Prime Minister's Office Regional Administration and Local Government
PRA	Participatory Rural Appraisal
RAS	Regional Administrative Secretary

RC	Regional Commissioner
REPOA	Research on Poverty Alleviation
SACCOS	Savings and Credit Co-operative Societies
SEDP	Secondary Education Development Plan
SIDA	Swedish International Development Cooperation Agency
SWA p	Sector-Wide Approach
TASAF	Tanzania Social Action Fund
TC	Town Council
TDV2025	Tanzania Development Vision 2025
UNICEF	The United Nations Children's Fund
VADP	Village Agriculture Development Plan
VEO	Village Executive Officer
VDP	Village Development Plan
WADP	Ward Agriculture Development Plan
WATSAN	Water and Sanitation
WDC	Ward Development Committee
WDP	Ward Development Plan
WEO	Ward Executive Officer
WEC	Ward Education Coordinator

## Executive summary

This desk study examines the support to Local Government Capital Development Grants (LGCDG) System in Tanzania as a case study of Sector Budget Support.

### **Sector Context**

In 1998, the Government of Tanzania embarked on a Local Government Reform Programme (LGRP) that since 2000 has been supported through a basket funded arrangement. The LGRP has focused on reform of the systems for LG finance, human resources LG legislation as well as provision of generic capacity building to the 133 Local Government Authorities (LGAs). However, the LGRP did not include support to LGAs for development funding. Up until 2004 LGAs relied almost entirely on selected sector projects or various Area Based Programmes funded by bilateral donors for their development funds. LGAs own revenue was highly inadequate for financing development needs, and transfers from Government budget to LGAs for development purposes were either highly earmarked or very low.

### **The Nature of Sector Budget Support**

The LGCDG system was introduced in 2004, after a long design process, as a modality for devolution of development budgets to LGAs. The LGCDG system is to a large extent modelled on the experience of the Ugandan Local Government Development Programme. The LGCDG is a discretionary development grant provided to LGAs according to a formula and annual assessments of their institutional performance. The assessment reviews LGAs capacities in key functional areas such as planning, budgeting, procurement, financial management, revenue generation as well as transparency and accountability. The LGAs that fulfil the basic minimum conditions are eligible to access the development grant, whereas those LGAs that fail have to wait another year to fulfil the conditions. All LGAs are given a discretionary capacity building grant that enables them to build basic capacity for future access to the development fund.

Donor support to the LGCDG combines both conventional project support, traceable earmarked sector budget support to fund the LGCDG, and the associated capacity building grant. SBS funds are channelled through treasury to LGAs and follow Government procedures for procurement, financial management and financial reporting. Also, additional procedures for output reporting were introduced. The LGCDG was initially funded by the World Bank and later from other donors.

The size of the core discretionary LGCDG grant is 1.5 USD per capita, but soon after its introduction, it was joined by “sector windows” and total budget allocations for the 2008/09 FY through the LGCDG system rose to almost 200 million USD – close to 6.5 USD/capita. This constitutes the most significant part of development financing for local service delivery in Tanzania.

The LGCDG system has developed over four main phases

- The introduction of the LGDCG in 2004 was financed via the World Bank-funded Local Government Support Project, which only included a third of all LGAs in Tanzania,
- A rapid expansion in 2005 when all LGAs were included as other Development Partners joined financing the LGCDG. This was accompanied by a concurrent closure of most of the previous area based development projects. The previous project management unit in PMO-RALG that had managed the LGCDG system was from 2006/7 abandoned and mainstreamed into the PMO-RALG.
- A process of integration of sector funds (agriculture, water etc) into the LGCDG system that greatly expanded the volume of development finance to local governments but also created some challenges in terms of effective “mainstreaming”.

- A new phase of support commenced in 2008, where agreement was reached on increasing to near-full Government financing of the LGCDG (with subsequent and gradual deduction of earmarked donor funding).

### ***The Effects of Sector Budget Support***

The effects have mainly been in four areas:

- Firstly, SBS supported the introduction of a system for transparent allocation of development resources to LGAs based on existing Government procedures. This provided a firm basis for continued reform and improvement of the intergovernmental fiscal framework. It also contributed significantly to reduction of transaction costs, as development partners discontinued separate Area Based projects in favour of joint financing to the LGCDG system.
- Secondly, SBS supported the introduction of discretionary development funding to LGAs that has enhanced citizen and councillor participation in planning and budget processes. The design of the LGCDG required higher-level LGAs (e.g. districts, municipalities) to allow lower level LGAs (wards and villages) to independently plan for 50% of the grants. The promising trends of participatory local planning have however been curtailed by significant Central Government and CCM (party) instructions regarding budget priorities. The significant emphasis on secondary classroom construction is a result of these instructions.
- Thirdly, the LGCDG has increased available development funding at local levels – this has resulted in a significant number of locally implemented development projects. Between 2004 and 2007, it funded over 4600 individual projects, including the construction of classrooms, roads and clinics as well development activities such as tree planting and health campaigns. The discretionary local development funds have foremost been spent on secondary education, but also on primary education, health facilities, as well as markets and administrative infrastructures have been implemented. The value for money and quality of works is generally considered satisfactory. However, the monitoring system is not capable of providing much detail on the specifics of either individual projects or service delivery impacts. Impact of the sector specific windows – in particular on agriculture and water is too early to judge.
- Fourthly, the LGCDG has with the annual assessment system provided an incentive framework for LGAs that also has enabled a more demand driven approach to capacity building. This system has led to significant improvements in LGAs capacities and their adherence to regulations, in particular for procurement and financial management. The assessment system provides for a detailed account of the improvements which is reflected in reports from the National Audit Office.

Overall, the LGCDG has contributed significantly to the expansion of local service delivery infrastructure and development activities in Tanzania. Results from the Mid Term review of the LGCDG also indicated that LGCDG provided reasonable value for money. SBS support to the LGCDG has therefore contributed to increased access to services in an efficient manner and to improved service delivery outcomes more broadly through strengthening local systems. However, the extent and sustainability of these benefits are undermined by weak inter-sectoral coordination and failure to plan for the recurrent implications of investments.

### ***Conclusion and Recommendations***

The overall conclusion of the study is that the LGCDG has been very successful in meeting its intended objectives. Neither continued support through area-based projects nor General Budget Support on its own could have achieved the same results – SBS was the most appropriate instrument in this particular area and time. Area based support would not have been able to influence wider systems development or be as effective as LGCDG in building capacities of LGAs. GBS, in the absence of a sound Intergovernmental Fiscal Framework (as spearheaded by LGCDG), would not have led to the significant improvements in local governance and transparency in local level resource allocations. The systems for devolution of development budget to LGAs were simply not in place. After some years of LGCDG implementation, the system is now to a large extent in place. It also has strong ownership from Government. This is indicated by the agreement reached to reduce of donor funding to the system gradually and to use GoT funding replace this and increase the total size of the grant (albeit partially funded via GBS).

However some issues still remain as challenges:

- a) Some wider aspects of local government reforms have not progressed in spite of being discussed in relation to LGCDG – this relates foremost to the lack of progress in decentralisation of human resource management in LGAs, which again prevents full implementation of wider LG fiscal reforms (formula based allocation of personal emoluments and other charges). Progress in this area requires a more concerted effort for reform coordination between PO-PSM, PMO-RALG and MOFEA as suggested in the proposed new phase of LGRP to start in 2009.
- b) Government systems for M&E of LGA plans and budgets require much further strengthening before adequate information can be synthesized on service delivery outputs and outcomes.
- c) Coordination with sector programmes (health, agriculture, roads etc) requires improvement. While there have been several achievements within a very short time regarding development of sector grants to LGAs within the overall LGCDG framework, it is evident that there still are tensions between the “LG sector” and service delivery sectors. Objectives of furthering local government’s autonomy and building cross-sectoral/generic systems are typically inconsistent with the service delivery sectors’ desire for sector earmarking of funds and a range of sector specific institutional and reporting requirements.

## 1. Introduction and Study Objectives

1. This is a case study examining Sector Budget Support in the Local Government sector in Tanzania, with particular emphasis on the Local Government Capital Development Grant (LGCDG)<sup>1</sup> modality. It forms part of a broader study commissioned by the Strategic Partnership with Africa Task Team on Sector Budget Support of SBS, which covers several studies in five countries.

2. The overall purpose of the study is to draw together experience of SBS to guide future improvements in policy and practice by partner countries and donors. The additional objective of this case study is to assess the lessons from experience to date in the Local Government sector and to provide the Government of Tanzania and donors with guidance that will help them improve the design and implementation of SBS in future.

3. This and the Uganda local government case are significantly different from the other SBSIP case studies which cover conventional sectors such as health, education, roads and agriculture. They have been included in the SBSIP study as they contrast with SBS in conventional sectors in two main regards. Firstly, they involve a hybrid approach combining SBS in support of service delivery and project support in a single aid instrument. The project support predominantly comprises of packages of technical assistance and capacity building support which complements the SBS. Secondly, they involve innovative approaches to institutional development and local service delivery, explicitly focusing on the strengthening of downstream processes through capacity building and the creation of strong incentives. These cases have potentially important lessons for conventional service delivery sectors, where such approaches typically have not been applied.

### 1.1 Methodology

4. The case study has been carried out using a methodology (ODI and Mokoro, 2008), which draws from evaluation frameworks of General Budget Support (IDD and Associates, 2006; Lawson and Booth, 2004, Caputo, Lawson and van de Linde, 2007), and from the specific requirements of the Terms of Reference for the Assignment. The assessment framework has four levels:

- Level 1 breaks down sector budget support into inputs, both financial and non financial inputs such as dialogue, conditionality and associated technical assistance and capacity.
- Level 2 identifies the immediate effects of SBS inputs on the overall nature of external assistance to the sector.
- Level 3 examines the outputs influenced by SBS in terms of sector policy, budgeting, financial management, institutional capacity, service delivery and accountability systems and processes.
- Level 4 examines the likely influence of SBS on outcomes in the sector, in terms of the achievement of sector policy objectives and service delivery.

5. The assessment framework also recognises the importance of external factors on the effects of SBS, the context within which it is provided, and the existence of feedback loops between and within each of the levels. A diagram of the assessment framework is provided in Annex 1.

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<sup>1</sup> Note that the Local Government Capital Development Grant (LGCDG) grant system changed its name in 2008 to “Local Government Development Grant System” (LGDG). In this report we attempt to use the terminology LGDG when we discuss most recent development and otherwise LGCDG when we refer to the experiences 2004-2007.

6. The primary question posed for the case studies by the terms of reference is as follows:

*How far has SBS met the objectives of partner countries and donors and what are the good practice lessons that can be used to improve effectiveness in future?*

7. The key purpose of the study is therefore the identification of good practice. It is not an evaluation. Therefore, the assessment framework will be used as the basis for the identification of cases good practice. For the purpose of this study, good practice is defined as:

*Instances where SBS inputs (level 1), and their influence on the overall nature of external assistance to the sector (level 2), have helped strengthen sector processes (level 3) in areas which have improved, or will plausibly improve, service delivery outcomes (level 4).*

8. The case studies follow four steps in applying the assessment framework:

- The first step involves analysis of the country, sector, and aid environment, in particular evolution of sector systems and service delivery outcomes (i.e. the context from levels 1 to 3).
- The second step involves documenting and assessing the specific nature of SBS provided to the sector, and its effects on the quality of partnership in the sector (level 1).
- The third involves an assessment of the effects of SBS from inputs to outputs (i.e. across Levels 1 to 3). This is carried out along four dimensions:
  - (i) Policy, planning and budgeting processes and monitoring and evaluation systems;
  - (ii) Sector procurement, expenditure control, accounting and audit processes;
  - (iii) Sector institutions, their capacity and service delivery systems; and
  - (iv) Domestic, ownership, incentives and accountability (See Figure 4).
- The fourth step involves an assessment of contribution of outputs influenced by SBS to improvements in sector outcomes (level 4).

9. The structure of this report follows the four steps. Under each of the four steps Main Study Questions (SQs) have been identified, as shown in

10. Box 1.

#### **Box 1: Main Study Questions**

##### **Step 1: Setting the Country, Sector and Aid Context**

SQ1.1: What have been the main national trends in poverty, economic performance, governance, and public sector delivery prior to and during the provision of SBS?

SQ1.2: How have sector processes, institutions, accountability and service delivery outcomes evolved prior to and during the provision of SBS?

SQ1.3: What has been the environment for external assistance at the national and sector level?

##### **Step 2: The Key Features of SBS Provided and its Effects on the Quality of Partnership**

SQ2.1: What are the key features of the SBS that has been provided?

SQ2.2: Has SBS contributed positively to the quality of partnership and reduction in transaction costs between development partners, the recipient government and civil society?

##### **Step 3: The Influence of SBS in Practice on the Sector and Lessons Learned**

SQ 3.1: What has been the influence of SBS on Sector Policy, Planning, Budgeting, Monitoring and Evaluation Processes, and what are the constraints faced and lessons learned in practice?

SQ3.2 What has been the influence of SBS on Procurement, Expenditure Control, Accounting and Audit Systems at the Sector Level, and what are the constraints faced and lessons learned in practice?

SQ3.3: What has been the influence of SBS on Sector Institutions, their Capacity and Systems for Service Delivery and what are the constraints faced and lessons learned in practice?

SQ3.4: What has been the Influence of SBS on Domestic Ownership, Incentives and Accountability in the Sector, and what are the constraints faced and lessons learned in practice?

##### **Step 4: The Effectiveness of SBS, and the Conditions for Success**

SQ4.1: What are the main contributions that SBS has made to the improvement of sector policy processes, public financial management, sector institutions, service delivery systems and accountability, and what were the conditions for success?

SQ4.2: Have the improvements in sector systems and processes to which SBS has contributed, had a positive influence on sector service delivery outcomes, and are they likely to do so in future?

11. The Conclusion will draw out the answer to these primary questions, and examine how the practice of the provision of SBS to the Local Government sector can be improved in future.

## 1.2 Activities Carried Out

The study is undertaken within a significant time constraint (6 working days) and is therefore primarily based on secondary sources. The study is undertaken by Per Tidemand who has been working with local government finance issues in Tanzania since 2001, and therefore, has been able to draw on his experiences including his past involvement in a range of analytical work as a Team leader for the design as well as mid term review of the LGCDG as well as various broader analytical work undertaken for World Bank and REPOA in Tanzania. A few interviews have also been carried out with PMO-RALG and Development partners.

## 2. Country, Sector and Aid Context

### 2.1 Country Context

**SQ1.1: What have been the main national trends in poverty, economic performance, governance, and public sector delivery prior to and during the provision of SBS?**

12. The United Republic of Tanzania is one of the largest countries in East Africa and has a population of approximately 39 million. Currently Tanzania is ranked 152 out of 179 countries in the United Nations Human Development Index.

13. Over the past ten years Tanzania has achieved high rates of economic growth and according to the official data, achieved 52% cumulative real GDP growth over the period 2001 to 2007. This success has been underpinned by an excellent record of macroeconomic stability and improved export performance<sup>2</sup>. However, recent results from the 2007 Household Budget Survey suggest slower than expected progress in reducing overall poverty over the period 2001 to 2007. Initial results presented by the National Bureau of Statistics (2008) suggest that the proportion of people living in poverty fell from 35.7% in 2001 to 33.3% in 2007.

14. Public expenditure since 2001 has experienced rapid growth due to significant increase in domestic revenues and scaled-up donor assistance. There is some evidence to suggest that such increases have fed in to improved service delivery, especially in the social sectors, where much of the increased government expenditure has been focused. For instance, primary school enrolment increased from 59 to 97 percent between 2000 and 2007, and under-five years infant mortality improved from 99 per 1,000 births in 1999/0 to 58 in 2007/8.

15. The development framework in Tanzania is directed by the National Strategy for Growth and Reduction of Poverty, known as the MKUKUTA<sup>3</sup> 2005 to 2010, and Vision 2025 that sets out

<sup>2</sup> See Economic Survey 2007, the Ministry of Finance and Economic Affairs & IMF Country Report No. 08/178, 2008.

<sup>3</sup> MKUKUTA is a Kiswahili acronym that translates as the 'National Strategy for Growth and Reduction of Poverty'.

economic and social objectives to be achieved by the year 2025. In support of strengthening government systems a number of reform programmes are in operation. These include the Local Government Reform Programme, the Public Sector Reform Programme, and the Public Financial Management (PFM) reform programme.

## 2.2 Sector Context

**SQ1.2: How have sector processes, institutions, accountability and service delivery outcomes evolved prior to and during the provision of SBS?**

### *Current Local Government Structures and Functions*

16. The current local government system in the rural areas of Tanzania's mainland is a two-tier LG system with LG Councils at District and Village Levels. In the urban areas, the local governments are only with one tier. In addition, the Tanzanian local government system operates with administrative committees at ward, street (mtaa), and sub-village (Kitongoji) levels. See Figure below for an overview of number and types of LG structures.

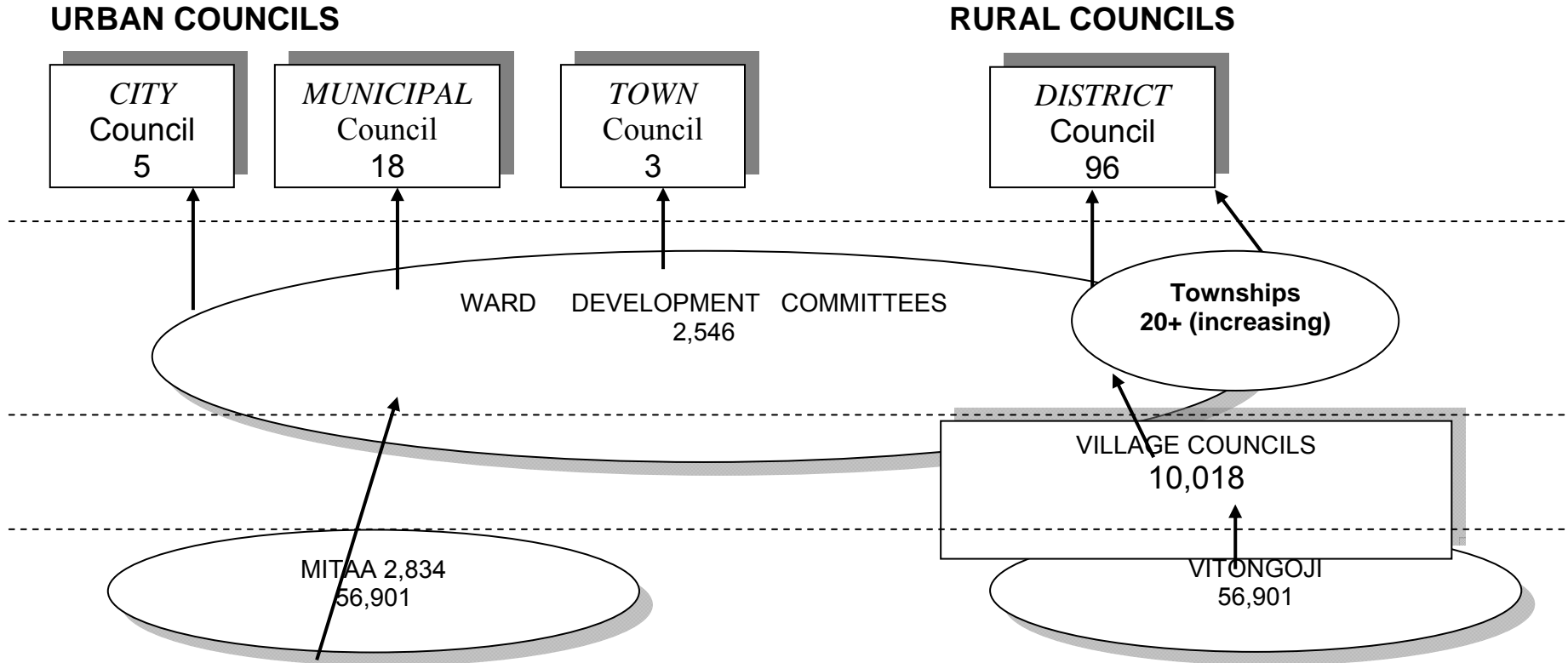
17. The number of LG structures has increased significantly over the last four years; the major changes are results of urbanization and decisions regarding formalizing the urban local government status of a number of upcoming or existing urban settlements that previously haven't been declared as urban areas. The number of rural local governments has also increased but not so drastically.

18. In addition to the LG structures, Tanzania also has a system of deconcentrated administrations- the Regional Administrations, which includes a secretariat at regional level and staff at district and divisional levels. The 21 Regional Secretariats (RS) comprise deconcentrated arms of the Central Government. The sector ministries linked to local service delivery (Health, Education, etc.) are all represented in the Regional Secretariats (RSs), which are supposed to be the immediate points of referral for the LGAs in their dealings with Central Government. Although they do not operate as superior organs of the state in all respects, they do have certain oversight (e.g. of local budgets) and monitoring responsibilities regarding LGAs.

19. Local Governments were (re) introduced in 1982 in Tanzania after a few years of abolition. Under the Local Government Laws, 1982 No.7 (District Authorities) and No.8 (Urban Authorities), LGAs have been assigned wide-ranging, but also very broad and occasionally vaguely formulated functions, including the major social sectors such as primary education, primary health care, rural water supply as well as local government roads, agricultural development and a broad range of natural resource management issues (in rural areas) and traditional municipal services in the urban areas (waste, sanitation etc).

20. In reality, however, sector ministries have remained heavily involved at all levels in these sectors, while the inter-sectoral or co-ordinating ministries have exercised tight control over the allocation and usage of local government inputs (fiscal and human resources in particular.). The Local Government reforms (discussed further below) have sought to further devolve functions and resources to LGAs.

Figure 1: Local Governments and Administrative Units: Layers and Numbers



## Local Government Reforms

21. The Government of Tanzania has since 1998, pursued a local government reform agenda with policy intentions outlined in the “Policy Paper on Local Government Reform” of October 1998. The paper spells out how decentralisation of government will include four main policy areas<sup>4</sup>:

1. Political devolution is devolution of powers and the setting of the rules for councils and committees, the chairpersons, etc. Political decentralisation will include the integration of previously centralized or deconcentrated service sectors into a holistic local government system, installing councils as the most important local political bodies within its jurisdiction. Political decentralisation implies the creation of real multi-functional governments at the local level within national legislation.
2. Financial decentralisation is based on the definition of principles of financial discretionary powers of local councils, i.e. powers to levy taxes and the obligation of central government to supply local governments with adequate unconditional grants and other forms of grants. The principle also allows local councils to pass their own budgets reflecting their own priorities, as well as mandatory expenditure required for attainment of national standards.
3. Administrative decentralisation: This principle involves the de-linking of local authority staff from their respective ministries and procedures for establishment of a local payroll. Local governments will thus have and recruit their own personnel, organized in a way decided by the respective councils in order to improve service delivery. Administrative decentralisation makes local government staff accountable to local councils.
4. Changed central-local relations: The role of central government vis-à-vis local councils will be changed into a system of inter-governmental relations with central government having the over-riding powers within the framework of the Constitution. Line ministries will change their role and functions into becoming: 1) policy making bodies; 2) supportive and capacity building bodies; 3) monitoring and quality assurance bodies within the local government legislation framework; and 4) regulating bodies (legal control and audit). The Minister responsible for local government will coordinate central-local relations and, in particular, all initiatives from sectoral matters to matters relating to local governments.

22. The overall objective of the reforms were stated as “to improve service delivery by making local authorities more democratic and autonomous within the framework established by central government” (p.9). The overall policy intention expressed in the policy paper is clearly ‘decentralisation by devolution’. The Policy emphasis is primarily on the strengthening of district and municipal councils. Some parts of the Policy are very explicit in its presentation of reform vision, for instance the sections on decentralisation of personnel, which clearly outlines a system where each LGA hires and fires all its own staff, including e.g. the Director and sector staff (e.g. teachers). Other parts of the policy discuss the vision in more general terms – for instance, regarding LG finance where broad principles of adequacy and autonomy are stated.

23. The Government, jointly with its development partners established a basket funded Local government Reform Programme (LGRP) that became fully operational in 2000 and completed its first phase in 2008. The LGRP focused on systems development (new systems for human resource management and financing services through LGAs, development of local government legislation, harmonisation of sector legislation etc.) and capacity building of LGAs. The latter

<sup>4</sup> As summarised in the executive summary of the Policy on the LG Reform (p. v-v1).

included various centrally managed training programmes, central procurement of some limited equipments and hands-on support by Zonal Reform Teams composed of Tanzanian contract hired experts in finance, HR and governance.

24. In recognition of the capacity constraints of the lead Ministry (Prime Ministers Office – Regional Administration and Local Governments, PMO-RALG), it was agreed to have the LGRP implemented through a dedicated LGR team with experts working on contractual terms. The Team was led by a Tanzanian Programme Manager and was supported over the years by 3-5 international advisors and approximately 30 Tanzanian experts. The LGRP was financed through a project modality with a range of (mainly bilateral) development Partners contributing to a Common Basket Fund.

25. The LGRP was implemented alongside several other large governance programmes (in particular the Public Service Reform Programme, the Public Finance Reform Programme), and substantive sector reform programmes (in particular within education, health and later roads, agriculture, natural resources and water).

26. The LGRP focused solely on systems development and capacity building and was implemented with an average annual budget of 10 million USD over the eight years.

27. The LGRP was also implemented alongside a number of so-called Area Based Programmes that provided additional capacity building and various amounts of funding to LGAs for development projects, with substantive local discretion on priorities across sectors. However, each of the Area Based Programmes pursued separate project procedures and advocated locally for different forms of improved local planning and participatory processes, and gave very different levels of financial support according to each donor approach, which obviously led to very unequal and un-transparent allocation of resources (further discussed below).

28. The Local Government Capital Development Grant was introduced in 2004 after several years of Local Government Reform and sought to increase available non-sector earmarked fiscal resources at LGA level and mainstream the various Area Based Programmes into a system of on-budget Government transfers to Local Governments. It was to a large extent based on experiences from Uganda<sup>5</sup> and included in a similar way, a system of annual performance reviews of LGAs, with subsequent reward and penalties to LGAs according to their performance.

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<sup>5</sup> See separate SBSIP study on LGDP in Uganda by Jesper Steffensen

## LG Finance Patterns

29. Currently in the Tanzanian LG budgets a distinction is made between four main categories of funding flows:

- i. Recurrent block grants: PE component
- ii. Recurrent block grants: OC component
- iii. Recurrent subventions and basket funds
- iv. Development grants and development funds

30. While the focus on this study is on development grants and the LGCDG in particular, it is important to situate the study within a broader understanding of LG financing. Crudely, it can be argued that the recurrent grants are financed entirely by Government's own revenues, whereas most recurrent subventions, basket funds and development grants are entirely or mainly funded by development partners. The figure below seeks to summarise the main differences among these four funding flows and clarify how the LGCDG fit into this.

Figure 2: Classification of LG Funding Flows

Grant Type	Examples/description	Funding flow	Main issues regarding compliance with fiscal decentralisation strategy
Recurrent block grant PE	Salaries for teachers, health staff etc.	Government funds from treasury to LGAs	Not allocated in accordance to transparent formula as otherwise agreed in fiscal decentralisation strategy.
Recurrent block grant OC	Operating expenses for key sectors + general purpose grant.	Government funds from treasury to LGAs	Underfunding
Recurrent subventions and basket funds	Additional recurrent financing for key sectors e.g. Health, HIV etc.	From DPs to basket fund through treasury to LGAs. In Budget these transfers are often registered as ministerial votes (rather than regional/LG votes)	Allocations not regular, DPs require often separate reporting, separate audits etc.
Development Grant: LGCDG	Non sector specific development grant  Allocated based on formula, applied universally to all LGA that qualify by meeting access conditions.	From DPs to basket fund through treasury to LGAs. Using the general Development account of LGAs.	Initial phases had some project features e.g. not merged with Government contributions, but this is resolved now. LGCDG is the model for all development funding and encourage use of formula based allocations and use of common reporting and transfer systems.
Sector Windows of LGCDG	Sector specific development grants e.g. health, education, agriculture – grants are sector specific but funding modality should in principle follow same procedures as for LGCDG.	As above	Often with some deviation from intended model – e.g. with separate committees to trigger allocations, different disbursement schedules and some elements of separate reporting.
Other development Funds	Project specific transfers. Examples; Participatory Forestry Management, Global AIDS fund, TASAF. Often these transfers do not apply to all LGAs but only a subset.	To specific bank accounts at LGA level	Budget allocation, transfers and reporting in accordance with project specific institutions. Often very irregular transfers with significant delays .

**Table 1: Local Governments Share of public expenditure 2001-2007**

Fiscal Year	Total Recurrent Expenditure (Tshs billion)	LG share
2001/02	1,253.1	18.7%
2002/03	1,527.8	19.0%
2003/04	1,834.1	17.7%
2004/05	2,252.3	17.0%
2005/06	2,875.6	18.6%
2006/07	3,142.3	24.3%

31. Local Governments share of total public expenditure has remained relatively stable and slightly below 20% during the period. Reliable data only exists for recurrent expenditures and not for the large donor funded development budget. The recent jump in LGAs' share of public expenditure is entirely explained by increases in staff salaries that account for the bulk of LGAs recurrent expenditures.

32. The recurrent budget is mainly composed of fiscal transfers from central government. Locally generated revenue slumped in 2004 when a number of taxes were abolished, but has slowly recovered (although mainly in urban areas). Own revenue shares of total recurrent budgets in LGAs has decreased from 19% to 9% over the period, and in rural LGAs own source revenue is often less than 5% of the total revenue.

**Table 2: LG Recurrent revenue composition 2002 - 2007**

	2002/03	2003/04	2004/05	2005/06	2006/07
<b>TShs. Million</b>					
Local Grants (incl. GPG)	247,027.3	313,872.7	386,767.8	452,831.2	600,270.6
Own Source Revenues	57,740.2	48,343.6	42,871.4	49,291.0	61,411.3
Local Borrowing	225.0	442.5	549.3	1,495.9	100.0
<b>Total</b>	<b>304,992.5</b>	<b>362,658.8</b>	<b>430,188.5</b>	<b>503,618.1</b>	<b>661,781.8</b>
<b>Percent of local government resources</b>					
Local Grants (incl. GPG)	81.0	86.5	89.9	90.4	90.7
Own Source Revenues	18.9	13.3	10.0	9.3	9.3
Local Borrowing	0.1	0.1	0.1	0.3	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Notes: Starting 2005/06, data reflect actual amounts as reported by LGAs. Source: PMO-RALG, LGA Finance Statistics, FY 2006/07 (LOGIN).					

**Table 3: LG Finance composition and Budget Reliability 2007**

(in TShs. Million)

	Budget Plan	Actual Outcome	Actual (as % of Total)	Perform. ratio (%)
Own Source Revenues	63,385.2	61,411.3	6.7	96.9
Intergov. Transfers	1,100,870.6	859,467.9	93.3	78.1
<i>o/w Block Grants</i>	695,191.8	600,270.6	65.2	86.3
<i>o/w Subventions and Funds</i>	142,314.4	77,980.1	8.5	54.8
<i>o/w Development Grants</i>	263,364.4	181,217.2	19.7	68.8
Local Borrowing	126.1	100.0	0.0	79.3
<b>Total Revenues</b>	<b>1,164,381.9</b>	<b>920,979.1</b>	<b>100.0</b>	<b>79.1</b>
Recurrent Expenditures	765,067.8	673,726.2	78.5	88.1
<i>o/w Concurrent functions</i>	601,661.7	539,379.3	62.8	89.6
<i>o/w Exclusive local fns</i>	163,406.1	134,346.9	15.7	82.2
Development Expenditures	353,940.9	184,574.3	21.5	52.1
<b>Total Expenditures</b>	<b>1,119,008.7</b>	<b>858,300.6</b>	<b>100.0</b>	<b>76.7</b>

Source: Local Government Fiscal Review 2007.

33. Table 3 above, gives a fuller picture of current LG finances with inclusion of available data on development funding and the reliability of revenue sources. Development expenditures account for approximately 22% of LGAs total expenditures. The table also shows that development funds are the least reliable.

34. The patterns of local spending have been fairly consistent over the last years as local spending priorities to a very large degree are determined by the earmarked sector funding. The table below indicates that approximately 66% of LG expenditures are spent on education and health sectors.

**Table 4: Summary of LG Expenditure Patterns 2007**

	PE	OC	Recurrent Expend.	Development Expend.	Total
	TShs. Million				
Education	329,276.4	72,952.5	402,228.9	51,966.4	454,195.2
Health	70,605.0	28,780.8	99,385.8	17,399.2	116,785.0
Agriculture	10,401.4	4,277.6	14,679.0	19,340.4	34,019.5
Roads	4,965.7	4,301.5	9,267.1	9,307.8	18,574.9
Water	4,095.4	9,723.1	13,818.5	15,206.7	29,025.2
Local Admin	46,870.9	47,869.3	94,740.2	14,335.9	109,076.1
Other Spending	19,962.9	19,643.8	39,606.7	57,017.9	96,624.6
<b>Total</b>	<b>486,177.7</b>	<b>187,548.5</b>	<b>673,726.2</b>	<b>184,574.3</b>	<b>858,300.6</b>
	Percent of local government expenditures				
Education	38.36	8.50	46.86	6.05	52.92
Health	8.23	3.35	11.58	2.03	13.61
Agriculture	1.21	0.50	1.71	2.25	3.96
Roads	0.58	0.50	1.08	1.08	2.16
Water	0.48	1.13	1.61	1.77	3.38
Local Admin	5.46	5.58	11.04	1.67	12.71
Other Spending	2.33	2.29	4.61	6.64	11.26
<b>Total</b>	<b>56.64</b>	<b>21.85</b>	<b>78.50</b>	<b>21.50</b>	<b>100.00</b>

Source: PMO-RALG, LGA Finance Statistics, FY 2006/07 (LOGIN).

## **Key Achievements and Challenges**

35. The Local Government Reform is an ongoing initiative where many initiatives have not yet been completed. It is also a very complex and ambitious reform initiative that is intertwined with several other crosscutting or sector specific reform initiatives, just as its wider impact is influenced by for e.g. the general macro economic developments. Nevertheless, with these caveats some general and broad conclusions can be made regarding achievements compared to the original policy of 1998.

36. While it is widely recognised that LGAs have been strengthened substantively in terms of institutional capacities, budgets and service delivery outputs (see further below), it is also, equally clear that the governance dimension of the reforms that are aimed at strengthening the relative autonomy of LGAs has been less successful. In particular it can be concluded that:

37. Numbers and quality of staff in LGAs have improved significantly over the last decade. However, LGAs have never been substantively empowered to manage staff in an autonomous manner. The legislation was revised substantially but mainly served to create a more coherent public service. Thus, after a decade of reform, LGAs do not have their “own” staff – neither in law nor in practice.

38. LGAs have received increasing amounts of funding mainly as central government grants. These transfers, within the last decade have been made more transparent by use of formula. LGAs financial management capabilities have also increased (further discussed below), but their autonomy in deciding locally on revenue generation or broader expenditure decisions have not increased significantly. LGAs own revenue generation has largely stagnated as several taxes have been abolished and revenue collection systems still are weak. The only area where LGAs have received some additional potential room for manoeuvre in budgeting is through the discretionary LGCDG grants.

39. Popular participation has increased through LG structures, which is reflected in increased involvement of citizens in planning, increased knowledge among citizens of LG plans and budgets etc. However, the level of citizen awareness of LG affairs is still low and citizens find it difficult to make effective use of their knowledge of LG budgets etc. It can also be noted that citizen participation in sector specific institutions (school committees, farmers groups, health committees etc) has increased more significantly and that these community level sector institutions are poorly linked to LG structures.

40. Finally it must be observed that the anticipated process of entrenching decentralisation by devolution in law has hardly progressed since 2001. A number of studies and legal reviews of sector legislation have been conducted, but none of the recommendations have yet been implemented. Several of the actual amendments of legislation and new legislation (e.g. the Public Service Act 2004 and amendments of LG legislation in 2008) send very mixed signals regarding Government’s commitment to decentralisation by devolution, as they in various ways have curbed LG autonomy.

41. All of the above issues are recognised as outstanding reform challenges and are sought to be addressed under an anticipated new phase of the Local Government Reform Programme (LGRP-2), tentatively scheduled to start in late 2009.

## 2.3 Context for External Assistance

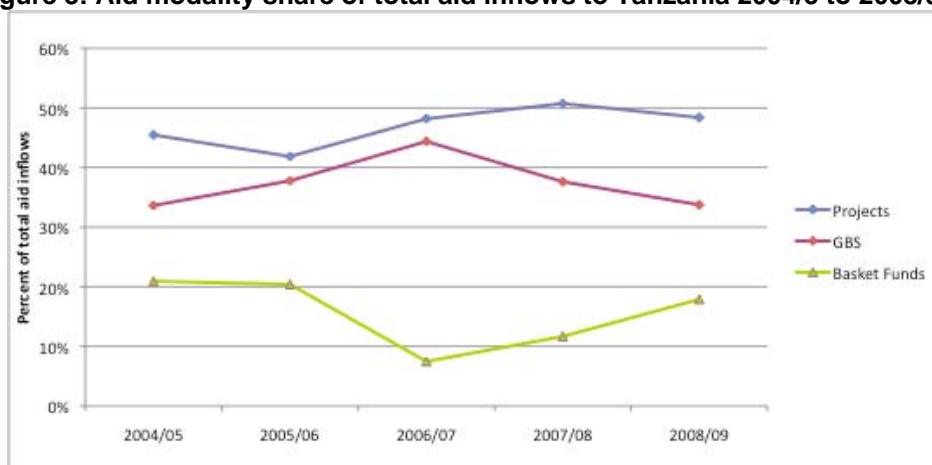
### SQ1.3: What has been the environment for external assistance at the national and sector level?

#### National Level

42. External support to Tanzania is guided by the Joint Assistance Strategy (JAST) 2006, that seeks to ensure that national and international commitments made on aid effectiveness, such as alignment and harmonization are adhered to<sup>6</sup>. Tanzania has been carrying out aid management reforms since the mid 1990's and given the multitude of development partners in Tanzania, it assists the government to take the lead in managing the development process including the implementation of the MKUKUTA. The JAST (2006) states that "general budget support is the Government's preferred aid modality" (pp.16) and that development partners "will increasingly move to GBS from other modalities and adhere to the criteria of 'good practice' for using basket funds and direct project funds" (pp. 18).

43. Tanzania has attracted large number of donors and large aid inflows over the period 1999 to 2008. In fiscal year 2007/08, projects accounted for 51% of all recorded aid inflows, general budget support (GBS) 38% and basket funding to the sectors 12%. Tanzania, like Mozambique and Uganda, has experienced a more significant shift towards GBS than other developing countries. However, Tanzania has also seen an increase in the total amount of basket funds and projects over the same period. Tanzania currently has three remaining basket funds linked to key sectors (health, water, agriculture) and several others linked GoT reform programmes (including PFM, Public Sector Reform Programme, Local Government Reform Programme, and the Deepening Democracy programme). Figure 2 highlights the relative importance of each of the modalities over the period 2004/5 to 2008/9.

**Figure 3: Aid modality share of total aid inflows to Tanzania 2004/5 to 2008/9**



<sup>6</sup> Prescriptions in the JAST (2006) are consistent with messages and commitments associated with the 2005 'Paris Declaration' and 2008 'Accra Agenda'.

## External Assistance to Local Governments

44. As mentioned earlier, the basket funded Local Government Reform Programme (LGRP), focused entirely on the “soft” aspects of the reforms like support for policy reforms, systems development and capacity building to local governments – it did not include support for development funding, which instead was under development in various sector programmes. The annual expenditures of the LGRP were in the modest range of 7-10 million USD from 2000 – 2008.

45. Thus, prior to the introduction of the LGCDG system, there was no national substantive national system in place for transfer of development funds to LGAs. As the Tanzanian development budget was almost entirely donor funded, it was only a selected group of LGAs that had entered into garment with various bilateral donors that received development funding through various Area Based Programmes. The table below gives an overview of the main area based programmes prior to the formulation of the LGCDG system.

46. As evident from the table: approximately only 30% of the Tanzanian LGAs received this type of support and the level of development funding also differed substantially across them (from 0.2 to 2.3 USD/capita per year).

**Table 5: Overview of Area Based Programmes 2002**

Development Agency	Number of supported local governments	Population (million)	Annual budget (million US\$)	Annual capital budget (million US\$)	Per capita development funds (US\$)
Netherlands	14	4.5	15	10.4	2.3
Finland	11	2	2.1	0.8	0.4
UNCDF/UNDP	6	2.2	2.3	1.8	0.8
Ireland	4	1.2	2	1.6	1.3
GTZ	3	0.9	0.4	0.2	0.2
DfID	3	0.6	1.5	0.6	1
<b>Total</b>	<b>38</b>	<b>10.5</b>	<b>22.9</b>	<b>15.2</b>	<b>1.4</b>

Source: UNCDF Overview of District Development Programmes in Tanzania 2002.

### 3. Key Features of SBS Provided and its Effects on the Quality of Partnership

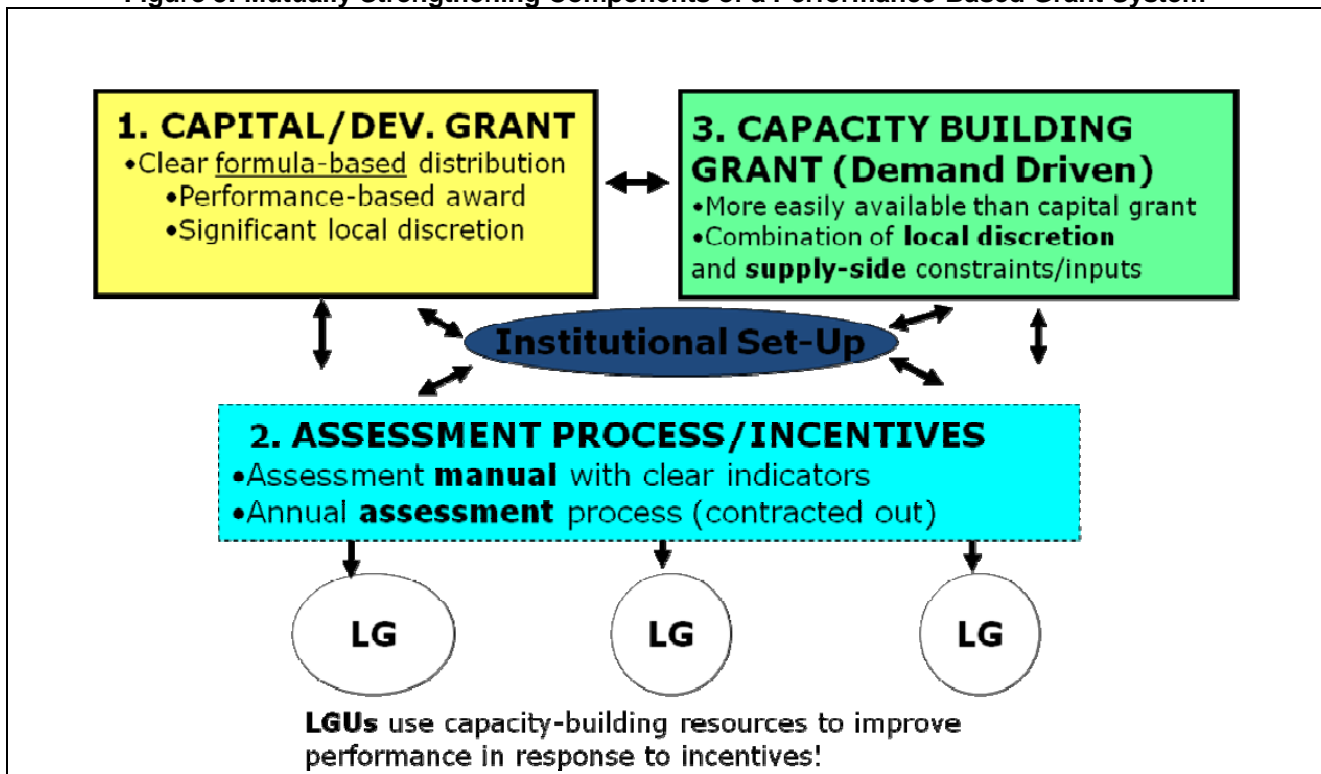
#### 3.1 The Key Features of SBS Provided

**SQ2.1: What are the key features of the SBS that has been provided?**

##### *The Evolution of SBS and its Objectives*

47. The support reviewed in this study is donor support to the Local Government Capital Development Grant system. This system had three, mutually reinforcing components, which were intended to provide strong incentives for local governments to improve their institutional performance:

**Figure 3: Mutually Strengthening Components of a Performance-Based Grant System**



Source: Steffensen (2008)

48. The Local Government Capital Development Grant system was introduced from 2004. The intention was to develop a modality for discretionary development funding to all LGAs in Tanzania, based on a system with annual assessments of performance which would (a) determine which LGAs fulfilled basic minimum conditions in order to access funds; and (b) reward or penalise LGAs according to their performance. The basic average allocation to LGAs was set at 1.5 USD per capita per year – the grant could be spent on all sectors for “capital” or “development” purposes. The system would in this manner provide safeguards for proper use of funds and also provide incentives for LGAs to enhance their performance. The latter opened up for a new system of provision of capacity building to LGAs, whereby LGAs rather than being the receivers of training etc. were given the responsibility for planning and implementing their own capacity building efforts. Each LGA received a block grant of approximately 35,000 USD per year for capacity building.

49. For the purposes for the overall SBSIP study<sup>7</sup>, Sector Budget Support is defined as the aid programme where:

- *Aid uses the normal channel used for government's own-funded expenditures. Aid is disbursed to the government's finance ministry (or "treasury"), from where it goes, via regular government procedures, to the ministries, departments or agencies (MDAs) responsible for budget execution.*
- *The dialogue and conditions associated with the aid should be predominately focused on a single sector.*

50. The World Bank support to the system – the Local Government Support Programme, was defined as a “project”, but it was actually a hybrid made up of SBS and project components. The LGCDG was provided to LGs constituted the major share of the programme and was supported by SBS. The smaller, traditional project components, *inter alia*, supported an urban component for Dar es Salaam (slum upgrading and support for revenue enhancements) as well as some support for overall management of these grants and related systems development.

51. The design of the grant system was significantly inspired by the earlier experiences in Uganda<sup>8</sup>. The initial design was significantly driven by the World Bank, that in this manner made its entry into the “Local Government Reform” sector, which hitherto only had been supported by bilateral donors.

52. The design process lasted for more than a year and was a challenging process. Partly because of the substantive technical and analytical work involved, but also because many different interests had to be reconciled. The discussions revolved around two main concerns (1) regarding the nature of minimum conditions; and (2) regarding the broader scope of the LGCDH system. Some Government representatives were very concerned about excluding substantive numbers of LGAs for a prolonged period from funding if they failed the minimum conditions. Their argument was based on concerns over “penalizing communities for mistakes made by LGA administrations”, but also reflected a reluctance to acknowledge LGAs’ autonomy and subsequent “right to fail or succeed”. The discussion of scope of the LGCDG system was to a large extent a discussion of timing. The World Bank was keen to start with a limited number (approximately 30% of all LGAs) in order to test the system before gradually up scaling. Bilateral Development Partners were during the design (2003) not yet fully committed to close down their existing Area Based Programmes, but saw the introduction of the grant system as an opportunity to do so. Discussions were also ongoing as to whether the LGCDG only should be for “capital” expenses or should also include “development” expenditures that are not of a capital nature (e.g. funding HIV campaigns, tree planting etc) – the agreed but admittedly unwieldy name “Local Government Capital Development Grant” reflects an attempted compromise.

53. When the LGCDG was introduced, it only included approximately 33% of the LGAs. A Letter of Sector Policy from the Government outlined the Government’s ambition: that all Area Based Programmes and similar projects (e.g. TASAF) over the next years should be mainstreamed into this system. As a long-term ambition it was also stipulated as a policy objective, so that sector projects can be integrated into the same system.

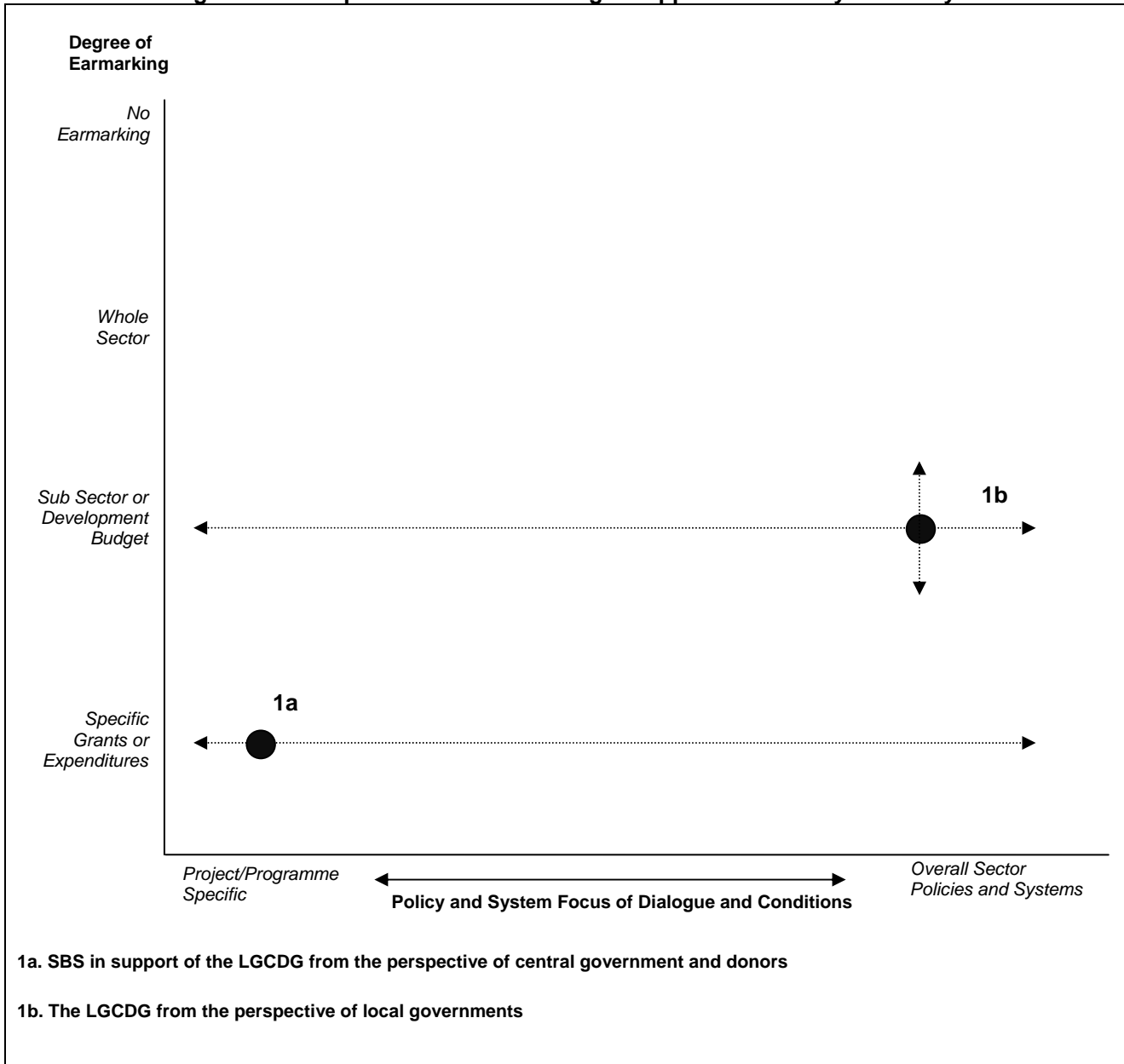
54. The LGCDG developed faster than expected in several aspects: Firstly, bilateral development partners and the EU joined the LGCDG system from FY 2005/06 and most area based

<sup>7</sup> See SBSIP inception report p7.

<sup>8</sup> The TOR for the design work made explicit reference to the Uganda system and several Tanzanian officials participated in study tours to Uganda to learn from their system. For further details on Uganda see the SBSIP report by Jesper Steffensen.

programmes were closed down in the same period. Secondly, sector grant integration into the LGCDG system started earlier than expected with introduction of an agricultural development grant first. Additions of other “sector windows” largely funded through various sector programme baskets soon followed.

**Figure 4: The Spectrum of Sector Budget Support Covered by the Study**



55. The Development partner support to the LGCDG system has evolved through four main phases:

- a) The early period of establishment of the LGCDG. This was done through the World Bank financed Local Government Support Project (LGSP). The system had some project specific features (a) it only applied to a third of all LGAs that were preselected for the project, (b) it introduced some additional reporting requirements to LGAs and (c) the Government development funds were not fully integrated into the system. Government wanted to fund those LGAs that didn't receive funds from LGCDG (rather than fully accept the principle of need for qualification etc).

- b) The LGCDG system was joined in 2005 by several bilateral donors and EU. The additional funding allowed the grant system to be applied nationally for all LGAs. The inclusion of bilateral development partners also strengthened further the relationship between the basket funded LGRP and the LGCDG.
- c) From 2006 several sectors sought to integrate the (often basket funded) sector specific development funds into the LGCDG system. This trend is illustrated in table 6.
- d) From 2008 a new MoU was agreed between Government of Tanzania and Development partners supporting the LGCDG. The MoU resolved a number of issues identified in the mid term review and past implementation. Most significantly it makes provision for a gradual full GoT funding of the LGCDG that otherwise had been almost entirely donor funded.

56. **Error! Reference source not found.**Figure 4 shows the nature of SBS funding to the LGCDG from two perspectives. From the perspective of central government and donors, funding was earmarked to a specific grant, the LGCDG, and the dialogue and conditions were focused on implementing the new grant system. From the perspective of local authorities, they were receiving development grants which included significant discretion (although this was reduced with the introduction of earmarking), with conditions that predominantly focused on the local government system.

### Funding Levels

**Table 6: Budgeted and Actual disbursements of SBS Programmes**

Grant (Million Tshs)	Actual 2004/05	Actual 2005 / 06	Actual 2006 / 07	2007/08 Budget	2008/09 Budget
<b>Capital Development Grant</b>	5,000	34,641	48,303	65,932	79,452
<b>LGDG to Non Qualifying Councils</b>	5,000	2,415	1,622	2,500	0
<b>Capacity Building Grant</b>	-	4,350	5,294	5,506	5,779
<b>Total Discretionary Grant</b>	10,000	41,406	55,219	73,938	85,231
<b>Agriculture CDG</b>	-	-	4,263	25,179	25,583
<b>Agriculture CBG</b>	-	-	3,293	17,284	17,997
<b>Agriculture EBG</b>	-	-	-	8,981	9,439
<b>Total Agriculture Grants</b>	-	-	7,556	51,444	53,019
<b>UDEM Grant</b>	-	-	-	1,334	3,351
<b>UDEM CBG</b>	-	-	-	2,293	2,470
<b>Total UDEM Grant</b>	-	-	-	3,627	5,821
<b>RW Grant</b>	-	-	-	65,915	59,614
<b>RW CBG</b>	-	-	-	3,730	2,772
<b>Total RWSS Grant</b>	-	-	-	69,645	62,386
<b>Primary education Development grant</b>	-	-	5,000	5,000	5,250
<b>Grand Total Allocations</b>	20,000	41,406	67,775	203,654	211,707

Source: PMO-RALG LGSP Mid-Term Review 2008 and PMO-RALG Annual Budget Guidelines 2008.

57. Development grant transfers increased in this manner very rapidly over the four-year period. Table 6 demonstrates the significant increases from approximately 20 million Tshs to 211 Million Tshs of which 85 million Tshs is a discretionary grant that can be utilized by LGAs according to

their own local priorities. The other “windows” of the LGCDG are sector specific grants earmarked for specific sectors but with substantial intra-sectoral discretion including for instance: Agriculture Capital Development Grant (ACG e.g. for irrigation, small roads and bridges as well as matching grants for agricultural investments), Urban Environment and Development Grant (UDEM) – that later in 2008 was “excluded” from LGCDG system as grants in reality were not distributed in accordance with assessment results and formula. Rural Water (RW) grants were budgeted for in 2008/09.

### **Earmarking, Additionality, Traceability and Financial Management Arrangements**

58. SBS funds were not only earmarked to the LGCDG, they were also traceable (see Box 2 below), as the LGCDG was separately identifiable in the development budget of PMO-RALG.

#### **Box 2: Earmarking, Traceability and Additionality**

**Earmarking** is a requirement that all or a portion of a certain source of revenue, such as a particular donor grant or tax, be devoted to a specific public expenditure. The *extent* of earmarking can vary. It involves the *ex ante* assignment of funds to a particular purpose and can range from the very broad and general to the narrow and specific.

**Traceability** refers to whether donor funds are separately attributable to a specific use. Funds are either traceable, or not:

- (i) **Traceable**, whereby allocation, disbursement and spending of funds is via specified and separately identifiable budget lines. This bypasses the normal procedure by which revenue is pooled with all other revenue in a general fund and then allocated among various government spending programmes. *De facto*, a traceable aid instrument must involve a degree of earmarking, although this may be very broad - this is often referred to as *real earmarking*.
- (ii) **Non traceable**, whereby external funding is not identifiable by separate budget lines. If earmarked, the allocation of funds is justified against budget allocations to pre-agreed institutions or budget lines, and is pooled with other government revenues in the general fund. When non traceable SBS is accompanied by earmarking - this is often referred to as *notional earmarking*.

These two dimension combine to form three main types of SBS funding:

	<b>Earmarked</b>	<b>Un-earmarked</b>
<b>Non Traceable</b>	Non-traceable Earmarked SBS	Un-earmarked SBS
<b>Traceable</b>	Traceable Earmarked SBS	

**Additionality** refers to requirements from the donor that the provision of external funding earmarked to a set of expenditures leads to an increase in total expenditure allocations to those expenditures. Additionality attempts to address the problem of fungibility, which arises because government resources can be substituted for aid resources. If aid finances any activity that the recipient would otherwise have financed itself, the resources that the recipient would have spent on that activity become available to finance something else.

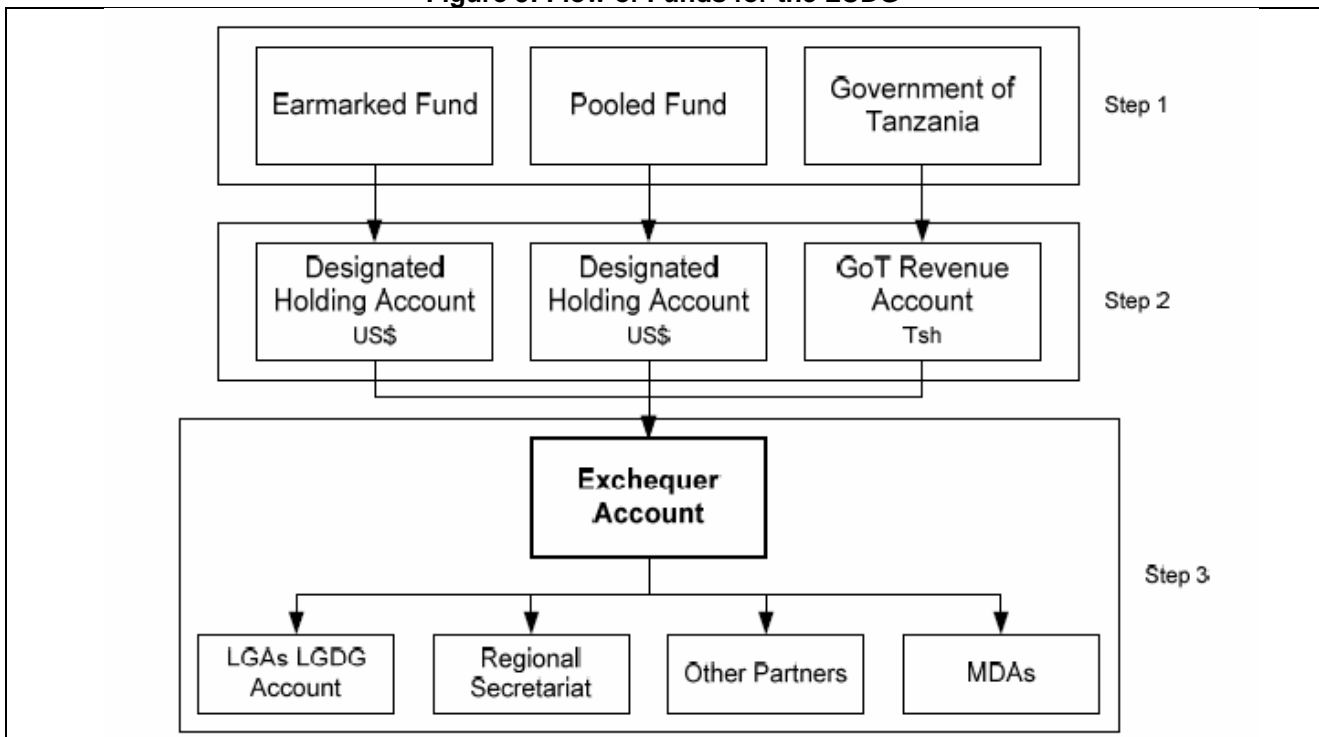
Source: SBSIP Literature Review

59. For funds released from the treasury of local governments, the LGCDG system relies entirely on government procedures for fund transfer, financial management, procurement and (with some exceptions) reporting. However, some additional steps and procedures are at play prior to development partners’ release of funds to the exchequer (see figure below) where the LGCDG system still shares many features with other basket funded sector programmes<sup>9</sup>.

<sup>9</sup> The following four paragraphs follow the recent analysis of basket funds in Tanzania: Policy Note 5 (08/09): Basket Fund Structure & Financial Performance - prepared for the Joint Government of Tanzania and Development Partner Public Expenditure Review Macro Group by Irish Aid Tanzania (April 2009)

60. As the chart denotes, most basket fund mechanisms involve a three-step disbursement process. Firstly, funds are deposited by Development Partners into a holding account once a specific set of requirements have been fulfilled. Secondly, the funds are withdrawn by government into the exchequer spending account after the fulfilment of another set of requirements. Finally, the money is disbursed from the exchequer to the relevant spending units. Delays in the flow of funds can occur at any of these stages and the precise reporting requirements are diverse and specific to each basket funding mechanism.

**Figure 5: Flow of Funds for the LCDG**



61. All the large five sector programs in Tanzania are mainly financed through a US dollar basket fund holding account maintained at the Bank of Tanzania (BoT), funded by DPs and managed by their respective Basket Fund Steering Committee (BFSC). The LGCDG is in a way financed by two baskets: one basket fund financed by the bilateral development partners supporting the LGRP and using the same basket fund steering committee and another the World Bank funded Local Government support Project.

62. Once basket funds resources are released into the Exchequer account, they are treated the same as government funds. Therefore, the main difference in the budgetary flow of basket funds to the spending unit is the point of origin of basket fund resources; rather than originating from the Government's general revenue fund, basket resources originate from the respective Sector Basket Holding Account.

63. For the LGCDG the main triggers for release is the annual assessment of LGAs that determine how many (and which) LGAs qualify for support (the procedures are further discussed below). However, the MoU between development partners and GoT stipulates that quarterly progress reports are required prior to each LGDG System Steering Committee and that certain issues such as implementation and financial performance, findings and actions taken on previous audits, plans

and budgets for the coming six month period and reports on matters arising from the decision of the last meeting need to be discussed but MoU is not entirely clear whether funds would still be transferred from the holding account if these conditions are not met.

64. In practice, delays have occurred in the transfer of funds to LGAs also for the LGCDG (see table 6 further below), since development partners may have different interpretation of what is required as “trigger” and as the Government staff in PMO-RALG and MOFEA also in practice have difficulties in getting all paperwork through the system as timely as required.

### ***Mechanisms for Dialogue and Conditionality***

65. The overall management of the LGDG system is mainly done through three committees:

A Steering Committee that provide overall policy direction and approves all key design decisions upon guidance from a technical committee. The steering committees is comprised of

- The Permanent Secretary, Prime Minister’s Office (Chairperson)
- PS PMO-RALG—Secretary,
- PS MOFEA;
- PSs of six sector ministries (i.e. MoWLD, MoHSW, MoEVT, MoID,
- MoAFC); and MLHSD)
- PS of any other Ministry if deemed necessary;

A technical committee that on a more regular basis (at least quarterly) brings together stakeholders at the technical level to oversee the operation of the LGDG System and to make recommendations to the Permanent Secretary PMO-RALG and the LGDG System Steering Committee. The committee is composed of

- Deputy Permanent Secretary PMO-RALG (Chair)
- Director of Local Government, PMO-RALG (Secretary)
- Representatives of contributing development partners
- Assistant Commissioner for Budget (Regional and Local Governments), Ministry of Finance and Economic Affairs
- Director for Policy and Planning, Ministry of Water and Livestock Development
- Programme Officer, District Health Services, Ministry of Health and Social Welfare
- Director of Primary Education, Ministry of Education and Vocational Training
- Director for Policy and Planning, Ministry of Infrastructure Development
- Director for Policy and Planning, Ministry of Agriculture, Food Security and Cooperatives
- Assistant Director, Surveys and Mapping, Ministry of Lands and Human Settlement Development
- Representative of the National Environmental Management Council
- Representative of Secretariat of Association of Local Authorities of Tanzania (ALAT)
- Other central and local level government officials (as per need)

A LGDG Common Basket Fund Steering Committee (CBFSC), which is the same as the LGRP Common Basket Fund Steering Committee. The purpose of the LGDG CBFSC is to oversee the general and financial management of the LGDG system and approves development partner’s contributions - in addition it is to ensure proper coordination between the LGRP II and the LGDG reform activities. It is therefore intended as the forum for most critical development partner – government dialogue.

The Committee comprises of the following members:

The Permanent Secretary, Prime Minister’s Office, Regional Administration and Local Government (Chairperson)  
The Deputy Permanent Secretary, PMO-RALG (Alternate Chairperson)

Other Voting members:

- (i) for the Government Director of Policy and Planning , PMO-RALG  
Commissioner for External Finance, MOFEA  
Commissioner for Budget, MOFEA  
Accountant General, MOFEA
- (ii) for the development partners A representative for each of the development partners contributing to the LGDG CBF
- (iii) Secretary (Voting Member) Director of Local Government, PMO-RALG

66. However, as the World Bank is not part of the general LGRP Basket committee, it may be argued that the LGDG/LGRP CBSC isn’t capable of full donor coordination. The World Bank has de facto mainly coordinated its LGSP project and its work in support of the LGDG system through its regular supervisory missions led from Washington.

67. The Annual Assessment of local governments is a key instrument of the LGDG system and it serves several purposes. Firstly, it provides assurance to development partners and Governments that funds are safeguarded by assessment of whether LGAs fulfil a set of minimum conditions (see table below). Secondly, the system of assessments provide strong incentives for LGAs to adhere to the required benchmarks of governance as the level of funding to LGAs is determined by their scoring (and in this way also provides an incentive for LGAs to use their more easily available capacity building funds wisely), and finally, it provides a fairly objective and comprehensive assessment of trends in overall management performance of LGAs. The assessments are overall managed by PMO-RALG but outsourced to independent consultancy companies which adds to the objectivity and technical quality – although the annual costs (almost 1 million USD) have been questioned occasionally.

**Table 7: LGCDG Minimum Conditions (2005 – 2008)**

<b>Functional Area</b>	<b>Indicators of Minimum Conditions</b>
A) Financial Management	1) Positions of Council Director, Treasurer substantively filled
	2) Final Accounts for the previous FY, produced as per section 45 (4) LGA 1982, submitted for audit on time
	3) The Council did not receive an adverse audit report for their last audited accounts
	4) No confirmed financial management irregularities have been reported either by the internal or external Auditors in the past 12 months.
	5) Bank reconciliation statements for all accounts prepared within 15 days of the previous month end
	6) Internal audit in place and functional as provided under section 45(1) of the LG Act 1982 and the LAFM 1997 orders 12-16. (At least 4 internal audit reports prepared during the previous 12 months.)
	7) Regular production of financial reports. All quarterly reports during the previous 12 months presented to council and copies to PMO-RALG through RS
B) Fiscal	1) Sufficient funds available to meet the co-funding obligation. (Minimum

Capacity	5% of the amount of the Capital Development Grant.)
C) Planning and Budgeting	1) Development plan approved by the Council, on time
	2) Budget process adhered to the provisions of the LG Act and Planning and budgeting guidelines
D) Procurement	1) Legally constituted Tender Board
	2) National Procurement guidelines and manuals available
E) Council's Functional Processes	1) Regular meetings of the council – at least one meeting held every 3 months
	2) Minutes of the council meetings recorded on a permanent record
F) Project Implementation, Monitoring and Evaluation Capacity	1) Annual and quarterly work plans available
	2) Progress reports on project implementation available

68. Some additional “conditionalities” have however been brought into dialogue for instance in relation to the mid term review of the LGSP. This includes broad local government reform policy issues – e.g. why should development partners support a system as LGDG if there are no assurances that Government fully embrace its policy of decentralisation by devolution. It also included discussion of appropriate M&E systems. In particular the World Bank has been concerned over the lack of a strong output and impact-monitoring system that can trace the physical outputs of the LGDG/LGSP in some details and also provide evidence of wider developmental impact. Bilateral development partners have to date argued for a broader improvement of the entire LG M&E system (not only for LGDG).

### **Technical assistance and Capacity Building**

69. Management of the LGCDG was in the beginning through a special project management unit in PMO-RALG established with support from the World Bank. However, already after some 2 years of implementation it was decided to integrate the management fully into PMO-RALG – this process was largely successful.

70. Support for development of national systems for M&E, financial management, design of local level capacity building programmes etc was to a very large extent shared between the WB financed LGSP and the LGRP. The LGRP was already quite TA intensive (approximately four international technical advisors and 30+ Tanzanian technical advisors) and minimised need for additional TA from World bank except for funding of consultancies in relation to the annual assessments, mid term review and few critical studies).

71. The most significant aspect of local capacity building under the LGDG system was the introduction of a discretionary grant for capacity building (CBG) of approximately 35,000 USD per LGA, that each LGA was to plan and manage locally within some broad guidance that put a cap on certain items (e.g. equipment compared to training) and the provision of a list of prequalifies training providers and development of some standardised training modules.

72. The Mid Term Review was fairly critical of the practical experiences with the CBG: in general the CBG was not given the same level of attention and oversight than the larger development grant (CDG) by LGAs and PMO-RALG. The review argued that this part of the LGDG system wasn't sufficiently prepared and supported. LGAs did not adhere to the specific guidance of the use of the grant and in several cases the grant was utilised by LGAs in a manner that only benefitted a few

individuals rather than strengthened the LGA in accordance with needs identified under the annual assessments. The review endorsed the basic design of the CBG but recommended strengthened follow up by PMO-RALG.

### ***Links to Other Modalities***

73. The introduction of the LGDG system forced a much stronger relationship between the overall LGRP and sectors (health, agriculture, water, education etc). The letter of sector policy that accompanied the initial World Bank support for the LGSP stipulated that Government would seek integration of all local level projects and sector funding through the LGDG system. Several sectors were sought subsequently to interpret the requirement. The agricultural sector was the earliest. It was sought as a part of the Agricultural sector development programme that was to be basket funded from 2006 to channel funds for agricultural (related) development funds through a “window” of the LGDG system. While there was agreement on the justification of some earmarking of the agricultural development funds. Within the overall LGDG system there was (and still is) some disagreement on the detailed institutional arrangements, e.g. the role of the sector basket fund steering committee in release of funds compared to the core LGDG institutions.

## **3.2 Derogations from Country Policies, Systems and Processes**

**SQ2.2: To what extent have SBS inputs derogated from country policies, systems and processes, and are these a result of country specific concerns and/or headquarter requirements?**

74. The LGCDG was designed in principle to support development of national systems for planning, fund allocation, investment management and accountability. This principle has to a large extent been complied with during implementation, particularly at the local level, where local planning, budgeting, accounting, auditing and procurement systems were applied and supported. Concerning the larger part of the programme (grants to LGAs) funds were routed through the treasury system using Government procedures, whereas for the central support, a direct funding channel to the PSU/PMORALG was applied.

75. At the central government level the LGDP had the typical derogations from government procurement systems as seen in most WB supported projects, whereby the WBs approval procedures for procurement over and above certain ceilings were applied (international bidding). A PSU was established to manage the grant system and the institutional support to the centre. It used some extra project specific M&E modalities while the overall M&E system for LGAs was being supported through joint capacity building with LGRP.

76. The government avoided use of World Bank procurement and audit procedures for expenditures funded from the grants used by local governments by stating that the programme was procuring a grant from the government of Tanzania, and not the specific investments implemented by LGAs. This principle had already earlier been established for the similar LGDP in Uganda. This meant that the World Bank only had to verify that grants had been transferred to local governments. This principle was readily accepted by bilateral development partners.

77. In the final stages of the design it was decided (by the WB) to require a separate bank account at LGAs in order to enable strict M&E of the particular WB funds transferred to the LGAs. This requirement has later been changed by MOFEA (in 2008) as a general development account already existed in LGAs and also had been recommended in original design of the system.

78. A related anomaly was the decision by Government to not initially co-finance the LGCDG directly but target weak LGAs with a minor similar grant when they failed to access the larger LGCDG (as is evident from table 6). After the Mid Term review in 2007 this approach was revised

and Government and development partner funds were only from then onwards truly integrated into one system of transfers.

79. The major remaining derogation of the SBS provided is the existence of a holding account and various steps for release to treasury. The holding account gives DPs an extra level of control of resources. The presence of the holding account makes it easier to hold back resources for a period of time until certain conditions are met (such control is not evident in the provision of GBS, especially if releases are made in full and in the first quarter). A main concern by DPs has previously been that a transition to General Budget Support would result in decreased levels of funding to LGAs. This has been countered in the new (2009) MoU for LGDG financing and a predetermined schedule for gradual full government financing of the LGDG has been agreed upon.

### 3.3 The Effects of SBS on the Quality of Partnership in the Sector

**SQ2.2: Has SBS contributed positively to the quality of partnership and reduction in transaction costs between development partners, the recipient government and civil society?**

80. The introduction of the LGCDG system has significantly improved partnerships in the sector. Previous LGRP support only included support for reforms of systems and appeared to many partners as somehow abstract without a component with support to service delivery. The LGCDG includes various measures for “supply led accountability” – for instance, the annual assessment system penalises those LGAs that do not adequately inform citizens on LG fiscal resources (budgets and expenditures). NGOs and Civil societies are subsequently engaged in efforts for strengthening citizens use of such information. Maybe more importantly, the introduction of the LGCDG strengthened dialogues between PMO-RALG, MOFEA and Development partners. MOFEA had hitherto not engaged significantly in the dialogue on local government reforms. This changed with the introduction of the LGCDG – partly because of the sheer size of committed funding from development partners and subsequent tangible potential benefits for implementation of the MKUKUTA. Dialogue on the LGCDG was used as entry point for discussion of a range of critical aspects of the wider LGRP. The first Letter of Sector Policy for instance emphasised the need for further harmonisation of local level funding modalities – which subsequently was strongly pursued by MOFEA. Issues regarding LGAs control over own staff were also included in the dialogue.

81. Transaction costs were substantially reduced with the gradual abolition of the various Area based programmes. The bilateral dialogue surrounding the ABPs was time consuming and not very satisfactory, Government was overstretched and delegated junior staff to present e.g. PMO-RALG in meetings with the individual Development Partner – discussions could in these fora never include policy issues of a wider nature. In comparison, the regular dialogue on LGCDG management is recognised as of much better quality. The institutions created for management of the LGCDG includes a LGCDG Technical committee where all key ministries, selected LG officials and development partners are represented. The committee meets on a quarterly basis and the quarterly meetings include several days of field visits in addition to documentary review of progress and issues. This has proved a very constructive forum.

82. Overall, the steering Committee for the LGCDG system is composed of the Permanent Secretaries of all key ministries including the relevant sector ministries and is chaired by Prime Ministers Office. This high level committee enables better policy dialogue.

## 4. Sector Budget Support and its Effects in Practice

### 4.1 SBS and its influence on Sector Policy, Planning, Budgeting, Monitoring and Evaluation Processes

**SQ 3.1: What has been the influence of SBS on Sector Policy, Planning, Budgeting, Monitoring and Evaluation Processes, and what are the constraints faced and lessons learned in practice?**

#### ***National Policy and Reform Processes***

The LGCDG was introduced complimentary to the overall LGRP that focused on the general local government reform policies and reforms. The main objective of the LGCDG was to a large extent effectively operationalize the general local government planning and financial procedures rather than to develop new.

The main dialogue on local government reforms therefore took place in the context of the LGRP, but attention to some aspects of the policy – in particular the overall design of the entire intergovernmental fiscal transfer arrangements were much influenced by the LGCDG. In fact, prior to the introduction of the LGCDG, there was no explicit policy or strategy for devolution of development funds to LGAs. The fiscal decentralisation strategy had until then focused entirely on the recurrent transfers.

The very substantial additional funds to the “local government sector” probably also brought the local government reforms higher on the agenda. In addition, the World Bank had not previously engaged in this type of policy issues.

#### ***Local Government Resource Allocation***

83. The transition of development assistance from project specific area based programmes to the national LGCDG led to immediate harmonisation in several areas as all project specific procedures for e.g. planning, budgeting, financial, and output reporting immediately were substituted by full integration into local government procedures.

84. Another immediate improvement was a much more transparent allocation of development resources across local governments. Prior to LGCDG, there were significant irrational differences in resource allocations. Several LGAs did not receive any development resources while others received very substantive funding as they benefitted from one of the few well resource area based programmes (see table 5). After the introduction of LGCDG, allocation of resources followed a need-based formula (based on population, land area and poverty) that guaranteed a much more transparent and equitable distribution of fiscal resources.

#### ***Local Government planning, budgeting and monitoring***

As further elaborated in section 4.2, the LGCDG led to significant management improvements in LGAs within the particular functional areas reviewed by the national assessments – in particular for financial management but also for planning and budgeting. The immediate improvements in these areas included (1) timeliness and comprehensiveness of local government plans and budgets, (2) proper involvement of relevant local council structures and (3) proper documentation of all relevant decisions related to the budget process. These improvements were partially explained by LGAs use of the decentralised Capacity Building Grants but mainly by the focus placed by the annual assessments on these aspects of the planning and budget process. Of particular importance in Tanzania was also the much more transparent allocation of fiscal resources to sub-district level (ward and village level) since they were allocated “indicative budget figures” of 50% of the district allocations. This led to more deliberate process of prioritisation at village and ward levels – much different from the past where village and ward planning, essentially was only an exercise for developing long wish lists that later were prioritised, budgeted and thus, ultimately “planned” by

district staff and councillors, rather than the respective lower level local government structures. The intended decentralisation of planning responsibilities was also accompanied with decentralisation of effective financial management to villages etc., although this actually wasn't intended in the first phase of the LGCDG implementation (ref LGSP Mid Term Review). The decentralisation of planning to lower level LGs led undoubtedly to some fragmentation of development funds with a very high number of small projects being implemented. The LGSP Mid Term Review estimated that approximately 4,600 projects at an average cost of 19 million Tanzanian shillings were implemented in the first three fiscal years of the LGCDG system (FY 2004/05 – 2006/07)<sup>10</sup>. Typical projects included foremost small scale capital investments such as the construction of schools, clinics, small water schemes, markets and roads, but also other development activities such as tree planting.

85. The M&E system applied at LGA level for monitoring progress of plans gave LGAs a reasonable overview and adequate information for follow up. However, it proved impossible for PMO-RALG at national level to provide anything but crude estimates of total number of projects/expenditure in each of the main sectors (ref table below). It was not possible for PMO-RALG to analyse expenditure patterns in greater detail –e.g. the type of health infrastructure were funded. The M&E challenge was initially planned to be overcome by use of a comprehensive standardised and computerised planning and reporting system (PLAN-REP) for planning and monitoring of outputs and inputs, but in spite of having been developed and promoted by LGRP for years it never became effective at a national level: probably because of poor ICT standards generally in most LGAs and also because the use of a standardised and comprehensive M&E system in many ways was undermined by the continued use of several sector specific or project specific M&E systems. PMO-RALG management introduced in response a simplified excel based reporting system that gave some crude national summaries (as shown in the table below). Another M&E system introduced earlier by LGRP was a system for monitoring outcome/impact (e.g. health impact etc): the Local Government Monitoring Database (LGMD).

**Table 8: LGCDG Expenditure Patterns 3 FYs**

TOTAL 3 Financial Years: 2004/05-FY2006/07			
Projects	Qty	Amount (Tshs.)	Budget share
Education		37,593,327,792	43%
Health		10,670,244,784	12%
Water		7,041,824,863	8%
Road		11,299,339,426	13%
Agriculture		3,604,769,069	4%
Others*		17,580,504,175	20%
<b>Total</b>	<b>4619</b>	<b>87,790,010,109</b>	<b>100%</b>

86. Another key challenge for planning and reporting at LGA level was the practical “folding in” of sector specific funding modalities in the LGCDG system. Several sector programmes were in 2004 only in the initial stages of developing true national sector programmes. In the agricultural sector for instance, funding to LGAs in 2004 was entirely in the form of multiple donor funded projects that each had its own preconditions, planning guides and reporting guides for LGAs. Immediately after the introduction of the LGCDG, the agricultural sector development partners and governments sought to mainstream the various projects into one modality and simultaneously integrate this into

<sup>10</sup> The total number of investments were actually higher and correspondingly the average costs per project is much lower as the LGA reports on “projects” often includes several smaller projects – e.g. construction of five classrooms may be classified as “one project” even when it happens in different schools.

the emerging systems for development funding in LGAs. Stakeholders in the agricultural sector were unwilling to go for an entirely unconditional grants (as the LGCDG), but while maintaining some sector earmarking of funding as well as use of sector specific formula (no need to channel substantive agricultural sector funds to urban areas, for instance), stakeholders found it desirable to use the same planning, reporting and funding systems as the LGCDG. It was also found appropriate to build on the core annual assessments, but introduce additional sector specific performance criteria that focused on the sector specific policies and challenges. For instance it was seen as desirable to link additional capital investments to LGAs commitment to reform of the agricultural extension service (the argument being that only once some progress had been made on improved extension systems would it make sense to channel additional funds for agriculture in that particular district). While the basic design of the Agricultural window of the LGCDG provided for a balance between sector specific features (some broad earmarking for agricultural investments, use of sector specific formula and added sector relevant performance measurements), and use of common systems and procedures (overall oversight by the LGCDG steering committee, use of one and same assessment process and manual, use of same channels of funds and reporting system), then in practice the integration didn't work fully as intended. Essentially because a different basket fund was established for the agricultural sector grant (and other agriculture sector activities) it was difficult to apply "triggers" fully integrated in the LGCDG system. The fact that a different Directorate of the PMORALG led the sector windows (The Directorate of Sector Coordination rather than the Directorate of Local Government that managed the "core" LGCDG) further complicated management as instructions for fund allocations as well as LGAs reports were managed separately for the sector windows and the core LGCDG.

### ***Lessons learnt***

87. The are the key positive effects of SBS on LGA systems:

- The LGCDG system by providing a discretionary investment grant made conditional on the passing of an annual assessment of institutional performance has led to strong incentives for LGAs to improve planning and budgeting in the areas assessed.
- The rapid mainstreaming of area based programmes led to significant harmonisation and greater transparency in resource allocation to LGAs.
- Capacity building – both supply and demand driven – helped build capacity in both planning and budgeting. The assessment process has helped LGAs identify areas where capacity needs upgrading. The assessment results were however not always used as the basis for LGAs use of capacity building funds as the overall planning and management of the CBG was much weaker than the corresponding process for the CDG.
- The Local Government Development Grant provided crucial discretionary funding for LGAs, which has enabled LGAs to provide services in line with local needs.
- The use of indicative planning figures at sub-district level has strengthened the lower level local government units.
- The later inclusion of sector windows has now made LGCDG system the dominant modality for local investment funding to LGAs and to a large extent created a more harmonised system for local level planning, budgeting and reporting for development funds – although some challenges still remain for a fully harmonised funding, planning and monitoring system.
- Donors and Government jointly worked for mainstreaming sector funding through the LGCDG system.

88. There are also two areas where SBS, and technical support linked to the provision of SBS, has not had positive effects:

- Inappropriate technical solutions in M&E, for example PLANREP and LGMD, which failed to address immediate LG reporting and monitoring requirements and were not well utilised.
- Some of the LGCDG sector windows have continued to operate with some aspects of sector specific institutions and reporting requirements contrary to the LGCDG objectives.

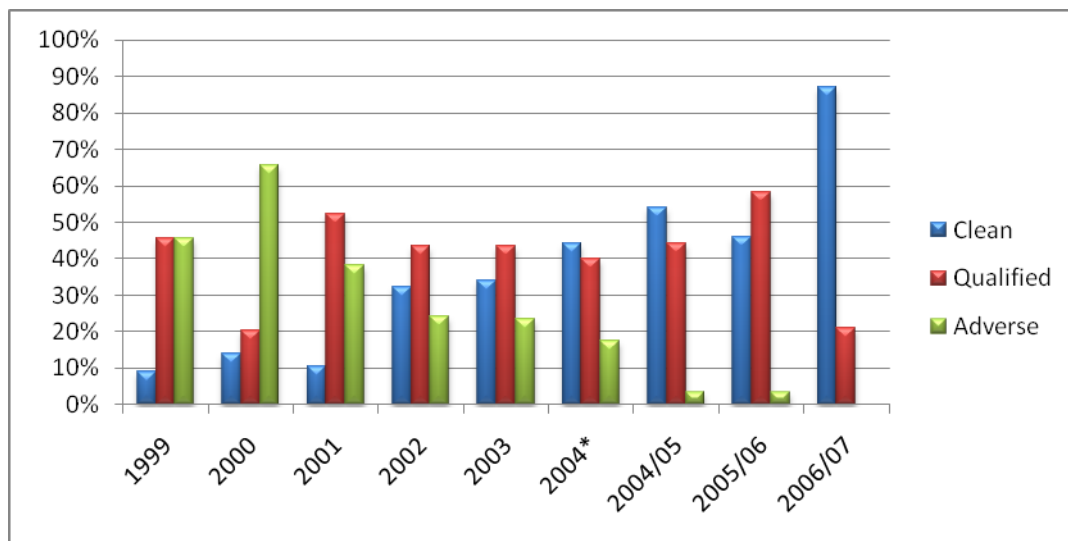
## 4.2 SBS and its Influence on Sector Procurement, Expenditure, Accounting and Audit Processes

**SQ3.2 What has been the influence of SBS on Procurement, Expenditure Control, Accounting and Audit Systems at the Sector Level, and what are the constraints faced and lessons learned in practice?**

89. The LGCDG is fully integrated into mainstream LG financial management systems, including procurement. A key performance indicator of the annual LGCDG assessment system is the results from the annual report from National Audit Office/Controller and Auditor General. LGAs that receive poor audit reports (adverse audit opinion) have been disqualified for LGCDG funding – this is obviously a strong incentive for LGAs to improve their financial management practices and has subsequently led to significant improvements.

90. The main results from NAO are summarised in figure 4 below. As evident from the figure: since 1999 the number of LGAs with adverse audit opinions has fallen sharply from 45% to zero percent in the latest audits, while the proportion of LGAs with clean audit reports in a similar manner has increased. This is a significant indicator of strengthened financial management in LGAs.

**Figure 6: Summary of CAG Reports for LGAs**



**Source:** Data from Controller and Auditor General as submitted to LGRP, summarised in figure REPOA 2008 (Tidemand and Jamal).

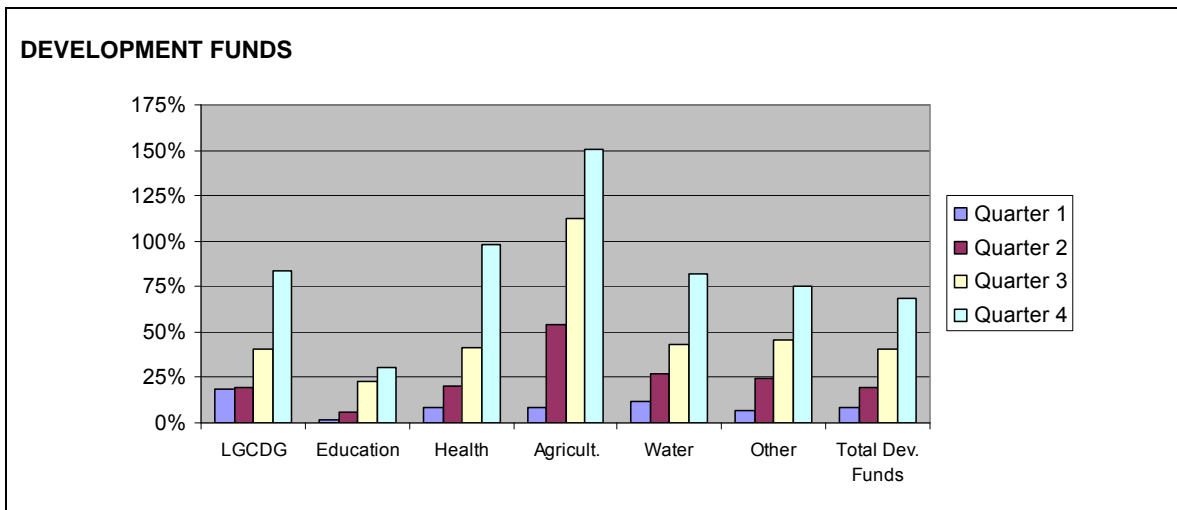
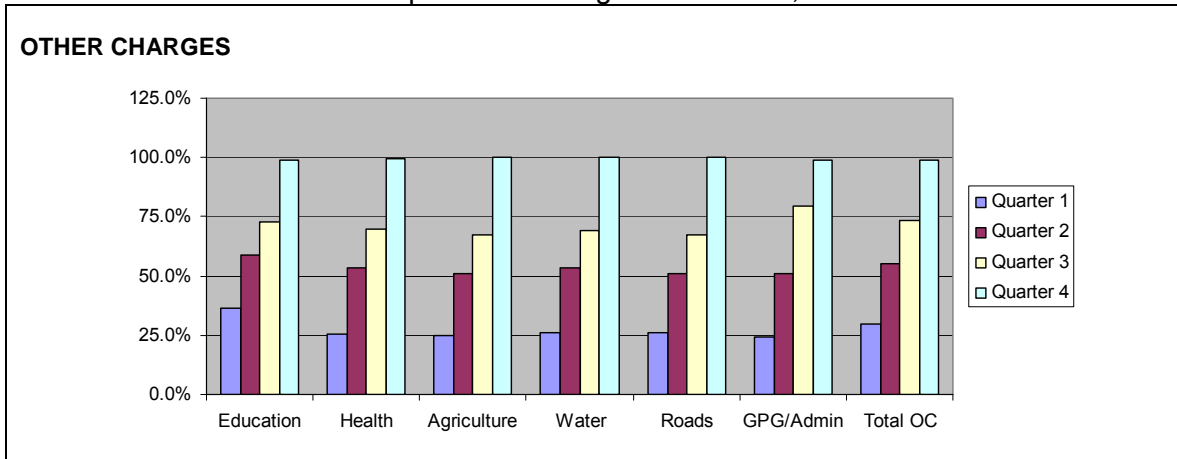
**Notes:** \* In 2004, the Fiscal Year for LGAs was changed to coincide with the Central Government FY from July – July. Previously LGA FY was on a calendar year basis. Thus the year marked 2004\* included only six months: January-June 2004.

91. Another area that has been strengthened through the introduction of the LGCDG system is the efforts for ensuring more reliable and timely transfers of development funds to LGAs. While the core government transfers for Personal Emoluments and Other Charges had become quite

predictable, then the system for transfer of development funds to LGAs was still struggling to establish a more reliable system. The problem is illustrated in figure 5 below.

**Figure 7: Timeliness and completeness of transfers<sup>11</sup>:**

Cumulative actual transfer as percent of budgeted transfers, FY 2006/07



92. Some development funds, not categorised as strictly “LG Grants” included various forms of sector development funding, were often much more erratic in transfer of budgets. It was not uncommon to find that LGAs would receive only 50% of their total budgeted funds and receive those in the last quarter of their financial year – which obviously made it very difficult to execute budgets effectively.

93. While the LGCDG for long struggled to ensure reliable transfers (as seen from the above) – it helped to focus on the problem, as the timeliness of transfers was included as a performance measure of the lead ministry in its agreements with the World Bank.

94. Procurement in LGAs follow the general procurement legislation, but there is room for interpretation of the legislation, in particular when districts decide to devolve the implementation of

<sup>11</sup> Extracted from; Boex, Jamie and Per Tidemand: Intergovernmental Funding Flows and Local budget Execution in Tanzania, Final report 2008.

some projects to Village Governments, wards or user groups (school committees etc). During the LGSP Mid Term Review it was realised that LGAs didn't follow similar procedures. Some LGAs would maintain ultimate responsibility for all procurement with the district, while others regarded the transfer of funds to e.g. schools or villages, as a kind of intergovernmental transfer and left procurement and ultimate financial management to these. Such districts therefore regarded funds accounted for when the transfer was made. As village governments are proper local governments it can be argued that such procedures are in line with legislation. Some concerns have been raised by e.g. World Bank Supervisory Missions regarding proper accountability at Village levels since the technical capacity isn't yet in place for technical reporting and auditing of the more than 10,000 villages and it has been suggested to introduce some kind of minimum conditions for villages to pass before they become responsible for local procurement and financial management. However, the National Audit office has taken a pragmatic approach and generally considers accountability at village level to be satisfactory because of the high levels of community oversight in these institutions.

95. The Mid Term review of LGSP also found (from small sample in four districts only) that investment funds managed by villages and other community level institutions was satisfactory, that money was well spent and that unit costs generally were lower when villages managed projects compared to district managed funds. The recent 'Value for Money Audit' (PMO-RALG 2009) confirmed those findings from a larger sample (24 LGAs) where it was found that only 2% of reviewed projects implemented 2005-2007 were of "poor quality" and the remaining of "fair" (14%), Good (50%) and Best (34%) quality.

### ***Lessons learnt***

96. The following are the key positive effects of SBS on LGA systems:

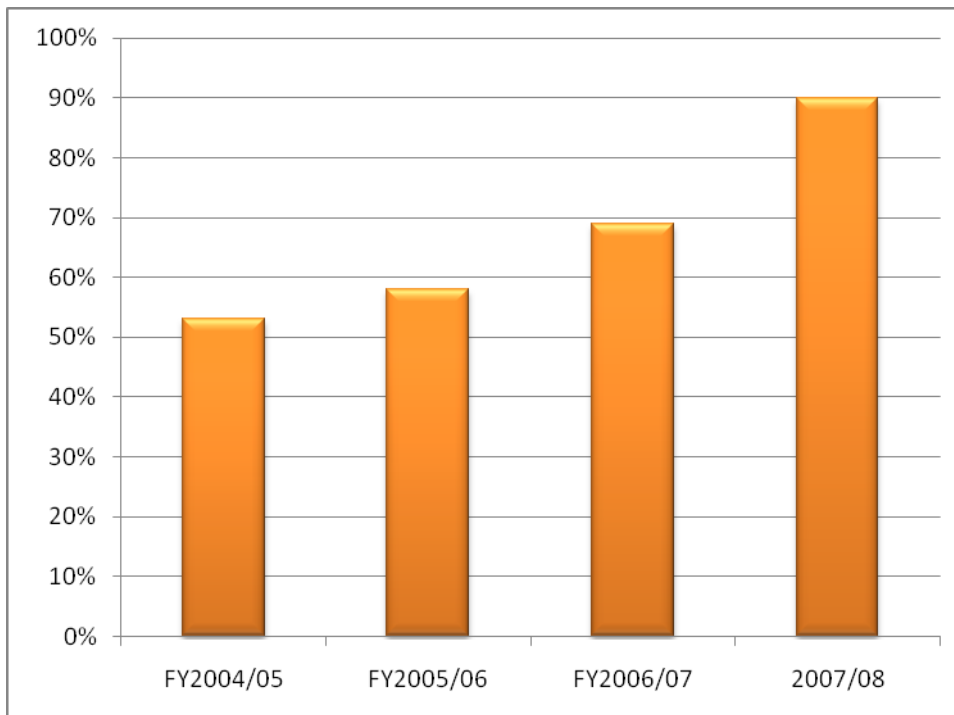
- The LGCDG model of providing a discretionary investment grant made conditional on the passing of an annual assessment of institutional performance has led to strong incentives for LGAs to improve procurement and accounting in the areas assessed.
- The assessment process has helped LGs identify areas where capacity needs upgrading and the discretionary CB enabled them to address those areas.
- The focus of LGCDG on ensuring timely transfers has spearheaded such efforts for the entire fiscal transfer system and transfers of development funds are increasingly becoming more timely and reliable,
- The involvement of communities in the entire project cycle of investments funded from LGCDG has been positive. This has been an important factor in lower unit costs observed in those investments. However, procedures for technical accountability at these levels are still to be improved.

### 4.3 SBS and its Influence on the Capacity of Sector Institutions and Systems for Service Delivery

**SQ3.3: What has been the influence of SBS on Sector Institutions, their Capacity and Systems for Service Delivery, and what are the constraints faced and lessons learned in practice?**

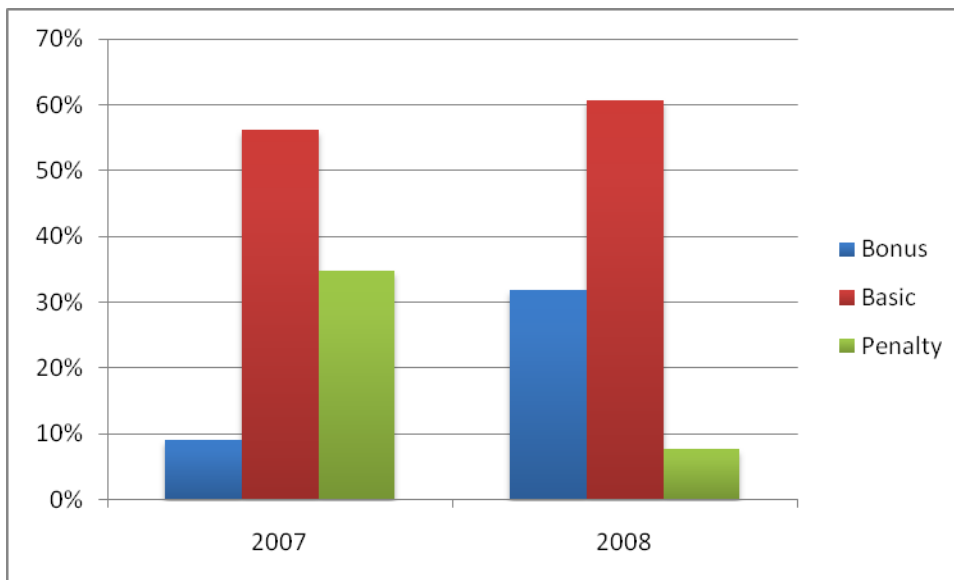
97. The LGCDG assess the institutional performance of LGAs on an annual basis. Good performers are rewarded and poor performers are penalised. It is obvious that LGAs try to improve their performance in the particular areas that are being assessed. The results from the annual assessments clearly demonstrate that there have been significant improvements over time (see figure below). The minimum conditions cover a range of functional areas that have to be met (see table 6).

Figure 8: Percent of LGs that meet LGCDG minimum conditions<sup>12</sup>



98. While the data on numbers of LGAs that pass minimum conditions gives a broad indication of overall organizational capacities of LGAs, but it is not possible to use the data on performance measures so easily in a similar manner, as the way performance measurements are measured, has changed more significantly over the years. It is only for the last two years that the results of the annual performance assessments effectively have been translated into adjustments of the Capital Development Grant (plus or minus 20 percent adjustment of the base grant LGAs is entitled for). For the last two years where official data are available (and performance measurement tools have been unchanged) it can be observed that the number of LGAs that have qualified for a bonus has increased from approximately 10% to 30% (see figure 7 below).

<sup>12</sup> DEGE Consult 2007: LGSP Mid Term Review

**Figure 9: Summary of Performance Measurements 2007 – 2008**

Source: PMO-RALG: Annual Assessment of minimum Conditions and Performance Measures, National Synthesis Reports April 2007 and May 2008

99. The contents of performance measures have been adjusted in 2009 and were also adjusted in 2006, it is therefore not possible to use the statistics in a meaningful way for monitoring of general capacity trends in LGAs over longer periods (and final results of 2009 are not yet publicly released). The intention anyways has always been to gradually “raise the bar” in order continuously give LGAs incentives for further improvements.

100. The figure below with results from the performance assessments gives an indication of the areas where the LGCDG system has been most successful in improving LGAs capacities. In general the improvements have been most significant in core LG functional areas such as council Planning Processes, procurement, human resource management and financial management. LGAs had problems in improving their fiscal capacities as this was influenced by MOFEA decisions to abolish a range of taxes.

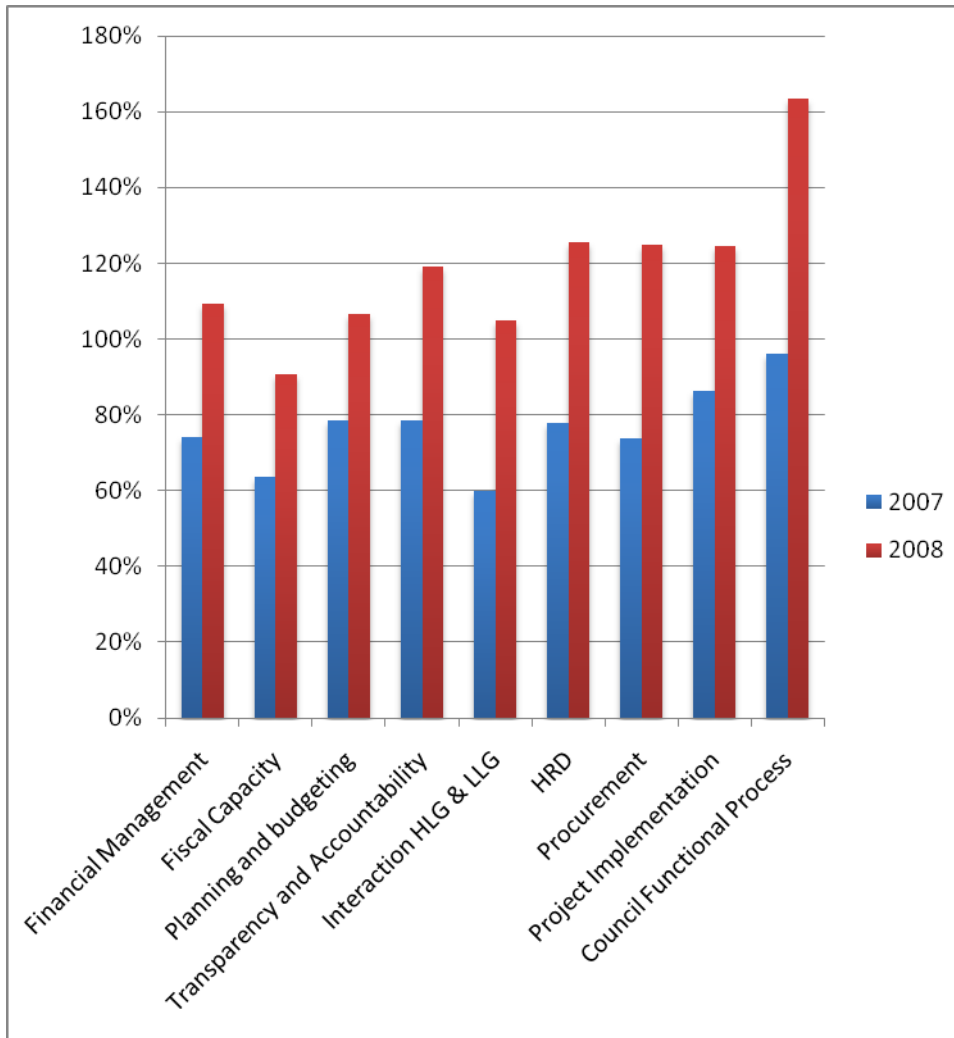
101. However, an independent evaluation of the annual assessments concluded that not all performance measurements were equally well defined, e.g. “Interaction between HLG and LLGs” (where assessment teams used subjective indicators) or “planning” that only included very crude measurements that for instance did not capture the real problems in LGAs regarding integration of capital and O&M costs, just as some sector specific performance indicators were introduced late in the process and not supported by relevant capacity building measures.

102. Despite the above shortcomings it must be concluded that the introduction of a national system for annual assessments of LGAs performance provided a much improved framework for monitoring capacity issues and therefore to adjust capacity building activities accordingly. The previous Area Based Project had a very high number of expatriate Technical Advisors – the four largest programmes employed approximately 25 and in hindsight it was realised that their impact had been rather limited if measured in terms of enhancing capacity of the permanent LG staff<sup>13</sup>. Instead capacity building under LGCDG was foremost rendered by local companies and

<sup>13</sup> Quite substantive evaluations were undertaken in 2003-2004 of the three largest and oldest Area Based programmes funded by the Irish, the Dutch and the Finns respectively.

institutions contracted by the individual LGAs. The results from the annual assessments also gave, for the first time, a comprehensive picture of trends in development of capacities in LGAs by providing clear quantifiable benchmarks.

**Figure 10: Average Performance Score as % of minimum requirement for bonus 2007-08**



Source: PMO-RALG Synthesis of Annual Assesments 2007 and 2008 op.cit.

### **Lessons learnt**

103. These are the key positive effects of SBS on LGA systems:

- The assessment system, the incentives and the discretionary capacity building have led to many significant improvements in core LGA management capabilities. The assessments provided a comprehensive assessment of the effectiveness of capacity building, which under LGCDG was found much more effective and cost efficient than under the previous area based programmes.
- The improved planning, fund allocation and management systems provide a sound basis for improved local service delivery.

104. There are also two areas where SBS, has not had positive effects:

- Linkages between LG capital investments (partially controlled by LGAs and LGCDG system) and recurrent financing (largely controlled by central government and sectors) need much improvement.
- M&E system for measurement of service delivery improvements are weak.

#### **4.4 The Influence of SBS on Domestic Ownership, Incentives and Accountability in the Sector**

**SQ3.4: What has been the Influence of SBS on Domestic Ownership, Incentives and Accountability in the Sector, and what are the constraints faced and lessons learned in practice?**

105. The introduction of the LGCDG – in particular viewed as a transition away from area based projects – led to a very significant change in the sector. Management of the LGCDG was in the beginning through a special project management unit in PMO-RALG – but after some 2 years of implementation it was decided to integrate the management fully into PMO-RALG – this process was largely successful.

106. The LGCDG came to form the core of a Government system for transfers and management of local government development funding. It became the vehicle for devolution of the Tanzanian development budget. MOFEA clearly indicated that “LGCDG” was the “preferred modality” for transfer of development funds to LGAs and encouraged development partners to mainstream their projects into the system.

107. The annual performance assessments of the LGCDG system gave significant incentives for LGAs to adhere to guidelines and practices of good local governance.

108. The system also enforced local accountability of staff to their councils. Previously it was very difficult for LG councillors “objectively” to assess the performance of their staff, but the LGCDG gave them a clear benchmarking system. Citizens in LGAs were now also given better information on the performance of their LGA and they became much more interested in the assessment results as access to development funds depended on these assessments.

##### ***Lessons learnt***

109. A key positive effect of the SBS has been through mainstreaming of the many separate area based projects into a government system, which has increased Government ownership.

110. The LGCDG requirements for budget transparency etc have led to increased local ownership. Budget and expenditure figures are now widely available in LGAs.

111. The initial attempt by WB to focus only on selected LGAs and also the initial disqualification of a large number of LGA made Government uneasy about the system, as Government had to demonstrate universal coverage and as Government was concerned over the continued “piloting” of approaches. When the LGCDG became universal in principle (from the second financial year) and when the vast majority of LGAs qualified for the grants it became much less problematic for Government to commit fully to the system which was realised after the mid term review in 2007.

112. However, some parts of the system, like the consultancy managed annual assessments are not yet fully owned by government, but to a certain extent are a donor requirement.

## 5. The Effectiveness of SBS and the Conditions for Success

### 5.1 The Main Outputs of SBS

**SQ4.1: What are the main contributions that SBS has made to the improvement of sector policy processes, public financial management, sector institutions, service delivery systems and accountability?**

113. The effects have mainly been in four areas:

- Firstly, it introduced a system for transparent allocation of development resources through LGAs based on existing Government procedures. This provided a firm basis for further continued reform and improvement of the intergovernmental fiscal framework and also contributed significantly to reduction of transaction costs as development partners discontinued separate Area Based projects in favour of joint financing of the LGCDG system
- Secondly, it introduced a fund for discretionary development funding in LGAs that has enhanced citizen and councillor participation in planning and budget processes. The design of the LGCDG required Higher-level LGAs (e.g. districts, municipalities) to allow lower level LGs (wards and villages) to plan independently for 50% of the grants. The promising trends of participatory local planning have however been curtailed by significant central Government and CCM (party) instructions regarding budget priorities. The significant emphasis on secondary classroom construction is a result of these instructions.
- Thirdly, the LGCDG has increased available development funding at local levels – this has resulted in a significant rise in number of locally implemented development projects. The discretionary local development funds have foremost been spent on secondary education, but also on primary education, health facilities as well as markets and administrative infrastructures have been implemented. The cost effectiveness and quality of works is generally considered satisfactorily. However, the monitoring system is not capable of providing much detail on the specifics of either individual projects or service delivery impacts. Impact of the sector specific windows – in particular agriculture and water is too early to judge.
- Finally, the LGCDG has with the annual assessment system provided an incentive framework for LGAs that also has enabled a more demand driven approach to capacity building. The system has led to significant improvements in LGAs capacities and their adherence to regulations in particular for procurement and financial management. The assessment system provides for a detailed account of the improvements that is also reflected in the report of the national Audit Office.

114. The main weaknesses can be summarised as

- Weak monitoring system for monitoring of service delivery outputs and impact. The intended systems developed earlier under LGRP (PLAN-REP and LGMD) have not worked in practice and the substitute M&E systems provide only rudimentary summary data.
- The sector earmarked development funds and projects are not yet fully integrated into the LGCDG system – this leads to lack of transparency in resource allocation, fragmentation of LGA planning and budgeting, and duplication of reporting.
- Competing views in Government of the extent to which LGAs are to plan and manage services locally in correspondence to the LG Act and Policy. This is reflected in some

sector MDAs reluctance to devolve funding through LGCDG and was reflected in the instructions made by the former Prime Minister to LGAs regarding how they should prioritise the use of their LGCDG.

115. A key challenge for the future is how the annual assessments will be conducted. The assessments have to date been carried out by independent consultants procured by PMO-RALG. This has contributed to a fairly high level of technical competency and independence of the annual assessments. However, it has also been argued that the exercise is overly costly as it currently costs almost 1 million USD.

## 5.2 The Sector Outcomes Influenced by SBS

**SQ4.2: Have the improvements in sector systems and processes to which SBS has contributed, had a positive influence on sector service delivery outcomes, and are they likely to do so in future?**

116. The LGCDG has contributed significantly to the expansion of local service delivery infrastructure and development activities in Tanzania. Between 2004 and 2007 it funded over 4600 individual projects, including the construction of classrooms, roads and clinics as well development activities such as tree planting and health campaigns. Results from the Mid Term review of the LGCDG also indicated that LGCDG provided reasonable value for money. SBS support to the LCDG has therefore contributed to increased access to services in an efficient manner.

117. A critical aspect regarding the sustainable impact of LGCDG investments is how LGAs in the long term can be enabled to cater to the recurrent requirements of the (predominant) capital investments funded through LGCDG. At present, most of the required recurrent funding is provided by central government with limited local government control over budget priorities. In the road sector this has led to an increasingly healthy financial framework (as the large Road Fund financed by the fuel levy is earmarked O&M and 30% of this is earmarked LG roads). However, in other sectors like health and education there seems to be a dangerous discrepancy between investments in capital expenditures (in particular new health facilities and class rooms) and the limited expansion of staff and other recurrent expenses. While these issues largely, are expected to be resolved through the respective sectors, it is also required to strengthen LGAs capacities for local funding of recurrent expenses required for improved service delivery. In broad terms this is planned for support under LGRP-2, but plans are still rather vague. For instance there is no clear roadmap for enhancing LGAs own revenues.

118. LGCDG has led to improvements in systems for fund allocations and fund management at LGA level. This is evident in results from NAO report. These improvements are assumed to have positively influenced wider service delivery outcomes through improving the efficiency and effectiveness of delivery. However, the extent to which for e.g. LGAs construction of secondary classrooms using funds from the LGCDG, result into quality secondary education obviously depend on a number of other issues that to a large extent are discussed outside the “LG sector”. This was not an explicit objective of the support to LGCDG, which focused on systems and institutional improvements in local governments, and establishing the system for delivering local investments.

## 6. Conclusion

**Primary Study Question:**      **How far has SBS met the objectives of partner countries and donors and what are the good practice lessons that can be used to improve effectiveness in future?**

The overall conclusion for the study is that the LGCDG has been very successful in meeting its intended objectives. Neither continued support through area-based projects nor just General Budget Support could have achieved the same results. Area based support would not have been able to influence wider systems development nor be as effective as LGCDG in building capacities of LGAs. GBS would in the absence of a sound Intergovernmental Fiscal Framework (as spearheaded by LGCDG) would not have led to the significant improvements in local governance and transparency in local level resource allocations. However after some years of LGCDG implementation, the system is now to a large extent in place to be fully owned and funded by Government as agreement has been reached for gradual reduction of donor funding to the system, while still increasing the total size of the grant through Government funding.

However some issues still remain as challenges:

- a) Some wider aspects of local government reforms have not progressed, in spite of being discussed in relation to LGCDG – this relates foremost to the lack of progress in decentralisation of human resource management to LGAs, which again prevent full implementation of wider LG fiscal reforms (no formula based allocation of PE grants). Progress in this area requires a more concerted effort for reform coordination between PO-PSM, PMO-RALG and MOFEA as suggested in the proposed new phase of LGRP to start in 2009.
- b) Government systems for M&E of LGA plans and budgets require much further strengthening before adequate information can be synthesized on service delivery outputs and outcomes,
- c) Coordination with sector programmes (health, agriculture, roads etc) requires further strengthening. While many achievements can be noted within a very short time regarding development of sector grants to LGAs within the overall LGCDG framework, then it is evident that there still are tensions between the “LG sector” objectives of furthering local governments autonomy and building cross-sectoral/generic systems with the sector specific objectives that often in practice have required e.g. sector earmarking of funds as well as a range of sector specific institutional and reporting requirements. This is also foreseen to be addressed under the future LGRP-2.

**Table 9: SBS practices with positive and negative effects**

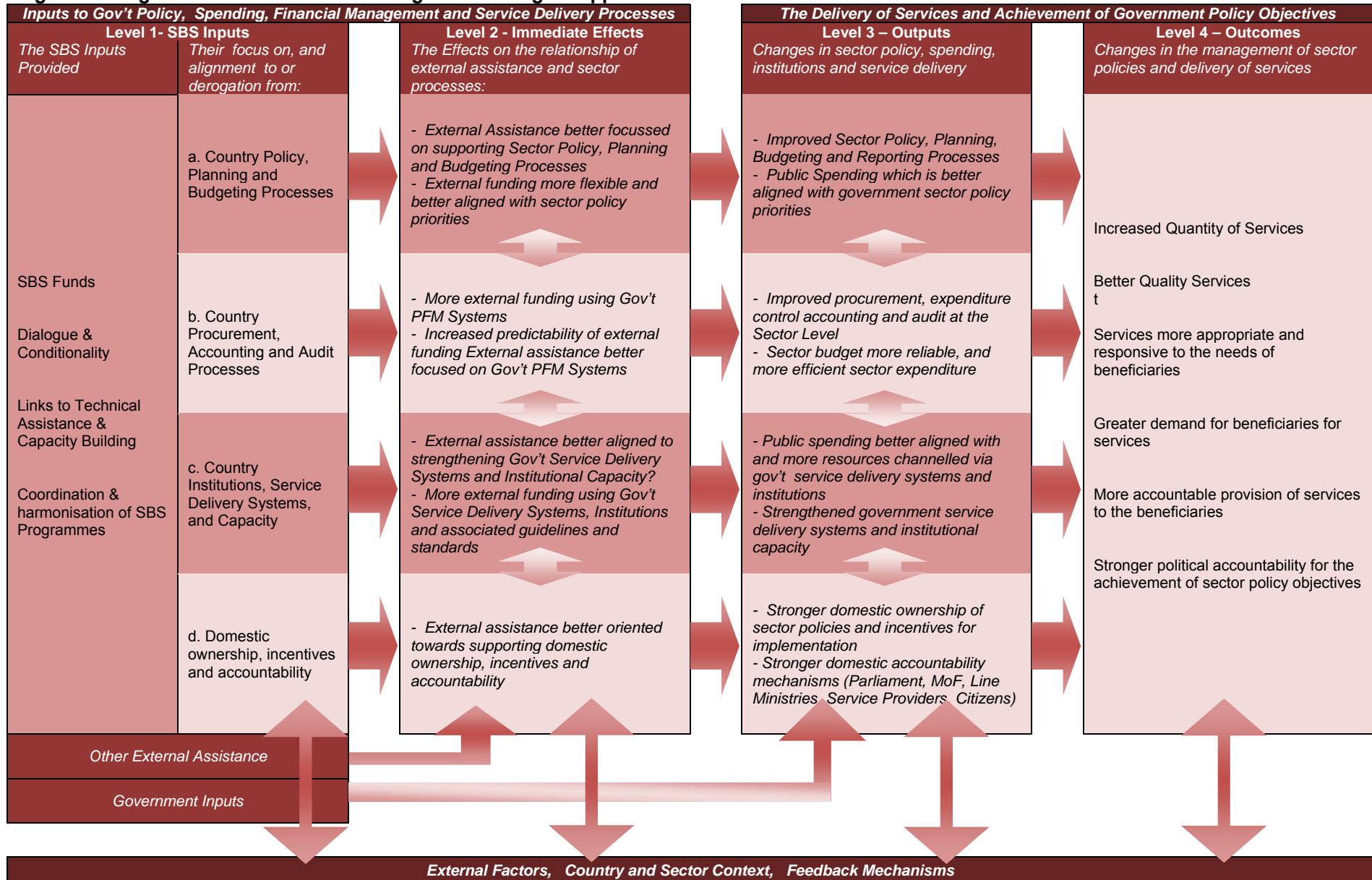
Domain	Practice with positive effects	Practice with negative effects
Sector policy, planning, budgeting, monitoring and evaluation	<ul style="list-style-type: none"> <li>The LGCDG system: providing a discretionary investment grant made conditional on the passing of an annual assessment of institutional performance has led to strong incentives for LGAs to improve planning and budgeting in the areas assessed.</li> <li>The rapid mainstreaming of area based programmes led to significant harmonisation and greater transparency in resource allocation to LGAs.</li> <li>Capacity building – both supply and demand driven – helped build capacity in both planning and budgeting. The assessment process has helped LGAs identify areas where capacity needs upgrading.</li> <li>The Local Development Grant provided crucial discretionary funding for LGs which has enabled LGs provide services in line with local needs.</li> <li>The later inclusion of sector windows has now made LGCDG system the dominant modality for local investment funding to LGAs.</li> <li>Donors and Government jointly worked for mainstreaming sector funding through the LGCDG system.</li> </ul>	<ul style="list-style-type: none"> <li>Inappropriate technical solutions in M&amp;E, for example PLANREP and LGMD, which failed to address immediate LG reporting and monitoring requirements and were not well utilised.</li> <li>Some of the LGCDG sector windows have continued to operate with some aspects of sector specific institutions and reporting requirements contrary to the LGCDG objectives.</li> <li>Some instructions made by Prime Ministers Office to LGAs regarding how they should use the LGCDG have undermined the intended local autonomy and LGCDG facilitation of local planning and priority settings.</li> </ul>
Procurement, expenditure, accounting and audit processes	<ul style="list-style-type: none"> <li>The LGCDG model of providing a discretionary investment grant made conditional on the passing of an annual assessment of institutional performance has led to strong incentives for LGs to improve procurement and accounting in the areas assessed.</li> <li>The assessment process has helped LGs identify areas where capacity needs upgrading and the discretionary CB enabled them to address those areas.</li> <li>The involvement of communities in the entire project cycle of investments funded from LGCDG has been positive, and an important factor in lower unit costs observed in those investments.</li> </ul>	<ul style="list-style-type: none"> <li>Some un-clarity regarding procurement rules for villages and other community based institutions below Districts,</li> <li>The general CAG reports do not provide in-depth analyses of sector issues and do not (yet) include value for money assessments. Both LGCDG as well as several sector funds require some form of additional (value for money) audits.</li> </ul>
Capacity of sector institutions and systems for service delivery	<ul style="list-style-type: none"> <li>The assessment system, the incentives and the discretionary capacity building have led to many significant improvements in core LGA management capabilities.</li> <li>The improved planning, fund allocation and management systems provide a sound basis for improved local service delivery.</li> </ul>	<ul style="list-style-type: none"> <li>Linkages between LG capital investments (partially controlled by LGAs and LGCDG system) and recurrent financing (largely controlled by central government and sectors) need much improvements.</li> <li>M&amp;E system for measurement of service delivery improvements are weak.</li> <li>LGAs use of capacity building funds and PMO-RALG guidance of these needs to be improved</li> </ul>
Domestic ownership, incentives and accountability	<ul style="list-style-type: none"> <li>The mainstreaming of many area based projects into a government system has increased Government ownership.</li> <li>The requirements for budget transparency etc have led to increased local ownership.</li> <li>The incentive system under LGCDG has enabled both communities and councillors to hold their LGA accountable</li> </ul>	<ul style="list-style-type: none"> <li>Some parts of the system, like the consultancy managed annual assessments are not yet fully owned by government but to a certain extent a donor requirement.</li> <li>Some parts of Government continue to issue directives to LGAs that counter the spirit of LGCDG and the LGR Policy</li> </ul>

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# Annex 1 – Summary of Findings against Logical Framework

Figure 11: Logical Framework for Assessing Sector Budget Support in Practice



## a) Context in which SBS has been Provided

	Country context	Sector context	Aid management context
<p><b>2004 -</b></p> <p>Relatively “late comer” but LG SBS (LG Capital and Development Grant or LGCDG) might be a boost to the policy.</p>	<p><u>Policy:</u> Vision 2025, National Strategy for Growth and Poverty Reduction (2005-10).</p> <p><u>Growth:</u> High, cumulative 52% (real terms) over period 2001 to 2007.</p> <p><u>Poverty reduction:</u> slower than expected, from 36% to 33% in the same period. Recent trend of rising inequality.</p> <p><u>Institutional set-up:</u></p> <p>Decentralisation under way (LG Reform Programme), including political, administrative and fiscal decentralisation “on paper”. Slow progress; Mixed messages (e.g no revised and clear legal framework yet; resistance of line ministries to decentralise staff; centrally decided erosion of local tax basis).</p> <p>Reform of public sector/civil service has a very long history in Tanzania (1991), with initial progress e.g. in down-sizing, but little success in tackling basic issues e.g. low pay, motivation and service delivery quality.</p> <p>Recent trends: Tanzania has been a quiet donor darling but this is under strain as corruption is said to be mounting or at least not decreasing.</p> <p><u>PFM</u></p> <p>Public spending (including increasing aid flows) related to GDP almost doubled from 1995 to 2008 (focus on priority sectors).</p> <p>From very weak in mid-1990s PFM system now considered among most robust in Africa (early focus on spending control, improved cash management etc.; gradually improved policy-budget link though much progress yet to be done;</p>	<p><u>Policy/plan/M&amp;E</u></p> <p>Policy and ambitious LG reform agenda (1998, “decentralisation by devolution”); Mixed implementation track record; Apparent reluctance to actual LG empowerment manifested in several ways (e.g. limited local discretion in use of most sector transfers; central decisions eroding local tax basis; lack of progress in developing legal LG framework; LGs never substantively empowered to manage staff).</p> <p>LGCDG was developed through a very= only room for manoeuvre in (non-recurrent) budgeting; New MOU foresees total funding by govt over time</p> <p><u>Spending levels</u></p> <p>LG share of total GOT recurrent expenditure stable 2001/2-2005/6 (around 20%) then rising (24% in 2006/7), earmarked for specific sectors and wages/other. Reliable data hard to come by for development budget, largely donor-funded. Own source revenue decreased over the 2001/2-2006/7 period and is below 5% recurrent spending for many rural LGs.</p> <p>Prior to LGCDG donor funding was creating large imbalance among LGs.</p>	<p><u>General aid trends</u></p> <p>ODA as a share of GDP averaged 12.9% in the 1995-2003 period; In 2006/7 external funding approximately 40% of public spending (up from 25% in 1998) and 80% of development budget.</p> <p>JAST 2006: GBS preferred modality. But after initial (pre-2004) shift to BS (42% of ODA in 2006/7), no clear trend; Thus in 2008/9, back to 2004/5 split BS (34%), projects (48%) and Common Basket Funding (18%).</p> <p><u>Aid to LG sector</u></p> <p>Common Basket Fund (LRGP) for LG capacity development and system development, project modality (and management by contracted staff) since 2000. Pre-2004, external funding for local capital/development was channelled through projects and area-based programmes (ABPs). LGDCG started in 2004, combining “on-budget” GOT transfers to LG for capital/investment, conditional on performance in core capacities, and grants for LG capacity building.</p> <p>LGCDG successfully managed to make donors shift from projects/ABPs and to attract some sectors to adopt the approach (through “sector windows”). It complements the LRGP.</p>

weak reporting and fiscal decentralisation).		
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## b) Nature of the SBS Provided

	Types:	Timescale:	Donors:
<i>Tanzania Local Gov't</i>	<input type="checkbox"/> BS in support of LGCDG	2004-	World Bank, EU, Germany, The Netherlands, Finland, Belgium, CIDA, NORAD,

	Funds and Financial Management	Dialogue and Conditions	T/A and Capacity Building	Links to other Aid
<i>Tanzania Local Gov't</i>	<p><u>Funding Level:</u> High and Increasing from 20bn (\$20m) TzSHs per annum to 211bn (\$150m) per year including all sector grants (\$50m excluding sector grants).</p> <p><u>Earmarking:</u> Earmarked to a new (in 2004) development and capacity building grants for local governments.</p> <p><u>Traceability:</u> SBS funding is traceable, and appears as a separately identifiable grant in the local government ministry development budget.</p> <p><u>Cash Management:</u> Funds are transferred from a holding account into the exchequer account. Only the amount received from donors is then transferred to local governments.</p> <p><u>Use of Other Gov't FM Systems:</u> Other government financial management systems are used in full.</p> <p><u>Derogations:</u> The main derogations relate to the cash management</p>	<p><u>Dialogue Structures:</u> A LGCDG Technical Committee meets quarterly. It includes line ministries and donors and selected LG officials. In addition a steering committee is in place for high level policy dialogue.</p> <p><u>Conditionality Framework:</u> Related to the programme of SBS support included some broad policy reform issues and monitoring systems.</p> <p><input type="checkbox"/> Although not strictly earmarked, the grant system funded by SBS is itself highly conditional. Local Governments could only access the development grant if they reached minimum conditions which were assessed in an Annual Performance Assessment of local governments.</p> <p><u>Focus:</u> Much of the dialogue associated with SBS has been specific to the grant system, with some limited time on broader policy issues.</p> <p><u>Derogations:</u> There is no established SWAP mechanism to derogate from.</p>	<p><u>Part of SBS Instruments:</u> Capacity building was a central part of the LGSP design. A capacity building grant was provided to local governments, which they were free to develop</p> <p>Project support was also provided to support the PMORALG establish and strengthen the LDCG system, but this was limited due to the existence of LGRP.</p> <p><u>Links to other initiatives:</u> Parallel LGRP provided TA focused on the development of overall LG systems – so there was a deliberate division of labour.</p>	<p><u>Links to Project Funding in the sector:</u> Efforts to links to other development grants to local government, usually provided via common baskets. Formalised in Letter of Sector Policy.</p> <p><u>Links to GBS:</u> Little explicit link to GBS</p>

	<b>Funds and Financial Management</b>	<b>Dialogue and Conditions</b>	<b>T/A and Capacity Building</b>	<b>Links to other Aid</b>
	procedures and traceability of SBS funds.			
	<b>Other important design features</b>			
	<p><u>Performance Based Grant System:</u> At the heart of the design of SBS was a performance based grant system, modelled on the Uganda LGDP. This had three main components. The local government capital development grant was provided to fund local service delivery infrastructure. Eligibility for, and the amount of local development grant received was based on the results of an Annual Assessment of institutional performance, the second component of the system. The third component was a capacity building grant which local governments all were eligible for even if they did not qualify for the development grant. This was intended to help local governments address capacity gaps and enable them to qualify for the development grant in future.</p>			
	<p><u>Derogations:</u> As with Uganda LGDP, a parallel project management unit was established. Mainstreaming of its functions into the Local Government ministry has been successfully completed.</p>			
	<b>Effects of SBS on the Quality of Partnership</b>			
	<p><u>Quality of Dialogue:</u> The LGCDG has improved partnership in the sector. Previous dialogue centred on the LGRP was considered abstract, and LGCDG helped orient dialogue towards service delivery. The LGCDG Technical Committee has proved a constructive forum, whilst the high level Steering committee enables better policy dialogue. Civil society engagement has also improved.</p>			
	<p><u>Transactions Costs:</u> Transactions costs were substantial reduced with the gradual abolition of the various Area Based Programmes, and the shift by donors towards funding the LGCDG system.</p>			

### c) The Effects of SBS in Practice

#### i) Policy, Planning, Budgeting, Monitoring, Evaluation and Expenditure

<b>Inputs</b>	<b>Effects</b>	<b>Outputs</b>
<p>SBS funding is on budget, is aligned with government policies and is reported on using government systems.</p> <p>Focus (TA/CD, dialogue, conditions) on sector policy, planning, budgeting, monitoring and evaluation processes?</p>	<p>External funding more flexible and better aligned with sector policies overall; assistance better focused on supporting sector policy, planning and budgeting processes.</p>	<p>SBS contribution to:</p> <ul style="list-style-type: none"> <li>▪ Public spending is better aligned with government sector policies.</li> <li>▪ Improved Sector policy, planning, budgeting and reporting Processes</li> </ul>
<i>Derogations: why, justified, temporary?</i>	<i>Effects of derogations</i>	<i>How do derogations affect outputs?</i>

	Inputs	Effects	Outputs
<b>Tanzania Local Gov't</b>	<b>Contextual factors:</b> Complementary Local Government Reform Programme; fiscal decentralisation reforms had focused on recurrent financing. Sector specific funding and associated M&E requirements have been developed alongside those in the local government “sector”.		
	<u>National Policy and Reform Processes</u> – LGCDG was not designed to contribute to policy processes, but to implement policy (and was therefore fully aligned with national policy). However the design and implementation of the SBS was, de facto, an elaboration of the fiscal transfer system.	External assistance was more aligned with policies and reforms as a result of the shift to the LGCDG	The degree of funding has raised the profile of the local government sector. It also helped shift the attention towards an overall strategy of fiscal decentralisation including both recurrent and development expenditures.
	<u>Local Government Planning, Budgeting &amp; Monitoring</u> - the LG assessment process included minimum conditions and performance criteria related to planning and budgeting. These were used as the basis for accessing funds. The capacity building grant was used to improve these areas too.  M&E systems for the LDCG were developed, as was an overall M&E system for local governments called PLANREP. However the former did not enable consolidation of information at the centre, whilst there was little incentive for local governments to use PLANREP which did not work properly. Instead a system that at least could generate some very basic national summary expenditure reports was hurriedly developed.	Overall external assistance was better aligned with the local government budget cycle, and provided explicit incentives for the improvements in systems.	The annual assessment process has provided strong incentives for LG to improve planning and budgeting, and contributed to the following improvements: timeliness and comprehensiveness of plans and budgets; documentation of decisions; proper involvement of council structures.  Although LGDCG reporting is adequate at the local government level, it cannot be consolidated nationally. The PlanRep system has failed to work as planned, as local governments have not had the incentive to use it, and lots of parallel sector planning and reporting processes exist..
<u>Local Government Resource Allocation</u> – There was a transition from area based programs to funding the LDCG which employed a needs based formula for resource allocation.  The LGCDG was earmarked to development activities, and a share was allocated to lower structures. Otherwise the grant was discretionary. The capacity building grant was earmarked to capacity building activities. Later windows for different sectors were added.	Overall external funding was increasingly on-budget and equitability distributed across the country. Although earmarked to development, there was significant discretionary funding.	The shift to the LGDCG modality has improved the overall equity and regional distribution of development financing for local governments. It has also contributed to an increase in that funding, which has been broadly discretionary. The majority of funding has been spent on the education, health, roads, water and agriculture sectors.	

## ii) Procurement, Accounting and Audit

	<b>Inputs</b>	<b>Effects</b>	<b>Outputs</b>
	<p>SBS funding uses government expenditure control, accounting and audit processes.</p> <p>Focus (TA/CD, dialogue, conditions) on strengthening government expenditure control, accounting and audit processes at the sector level?</p> <p><i>Derogations: why, justified, temporary?</i></p>	<p>External funding uses government FM systems more and is more predictable; assistance better focussed on gov't FM systems.</p> <p><i>Effects of derogations</i></p>	<p>SBS contribution to:</p> <ul style="list-style-type: none"> <li>▪ Improved sector procurement, expenditure control, accounting and audit at the sector level;</li> <li>▪ Sector budget more reliable and sector expenditure more efficient.</li> </ul> <p><i>How do derogations affect outputs?</i></p>
<b>Tanzania Local Gov't</b>	<p><b>Contextual factors:</b> Relatively clear framework for LG PFM, although vague procurement regulations. Predictable recurrent, but unpredictable development transfers early on. Strength of community oversight at village level.</p>		
	<p>The LGDCDG fully uses mainstream LG financial management systems, including procurement. The amount of funding received from donors was the amount disbursed to LGs as the LGCDG. The timeliness of transfers was included as a performance measure of the lead ministry.</p> <p>The LG assessment process included minimum conditions and performance criteria related to financial management, procurement and audit. These were used as the basis for accessing funds. The capacity building grant was used to improve these areas too.</p>	<p>Increased share of external funding uses government financial management systems, and its predictability has improved. Incentive framework explicitly linked to the use of government systems.</p>	<p>Although there were initial problems, the predictability of LG development funds has improved over time. The performance measure on timeliness of transfers helped in this, and this has helped improve overall predictability in development transfers.</p> <p>The assessment process contributed towards significant improvements in financial management, and there has been a rapid reduction in the number of adverse and qualified audit opinions.</p> <p>Quality of investments delivered good, especially at lower levels, with 98% of investments fair quality or better and more efficient than the district level, highlighting the strength of village oversight. Technical accountability at this level remains weak, and not significantly improved by the LGCDG.</p>

## iii) Capacity of Sector Institutions and Systems for Service Delivery

	<b>Inputs</b>	<b>Effects</b>	<b>Outputs</b>
	<p>SBS use of Gvt mainstream funding mechanisms and sce delivery institutions</p> <p>Focus (other inputs) on devt and strengthening of mainstream sce delivery institutions?</p> <p><i>Derogations: why, justified, temporary?</i></p>	<p>SBS contribution to aid alignment (funding and other inputs) with govt sce delivery framework</p> <p><i>Effects of derogations</i></p>	<p>SBS contribution to:</p> <ul style="list-style-type: none"> <li>▪ Increased <b>total</b> funds flows for sce delivery</li> <li>▪ Stronger sce delivery systems &amp; institutions</li> </ul> <p><i>How do derogations affect outputs</i></p>

	Inputs	Effects	Outputs
<b>Tanzania LGCDG</b>	<p><b>Contextual factors:</b> Policy and Local Government Reform Programme launched in 1998; Mixed progress in implementation (expanding fund transfers but limited scope for LGA discretion; lack of progress in decentralising staff management; little progress in legal framework for devolution and mixed messages from other legal developments; politically-motivated central interference in local processes); Common Basket Fund support to system and LGAs capacity development (LGRP), project support to central management capacity, area-based programme (ABP) support to specific LGAs (capacity and development funding), introduction of LGCDG (modelled on Uganda LGDP) in 2004.</p>		
	<p>The LGCDG has been developed to provide discretionary funding for LG-led development. Funds are channelled through GOT funding mechanisms and used existing GOT structures to a large extent (fully at LGA level), and systems that were developed for this new grant.</p> <p>The performance assessment framework underpinning the system of development funding allocation focuses on demanding performance in core capacities of LGAs. Assistance to address capacity gaps is provided through (i) demand-driven CB activities implemented by LAGs with the SBS-CB grant, based on CB needs assessments and plans; (ii) complementary supply-driven activities implemented by the central level.</p> <p>The high level and multi-stakeholder dialogue around LGCDG involves key sector and central ministries. However, coordination with key sector ministries needs strengthening.</p> <p>There were comparatively little/inadequate inputs in the development of systems that would capture holistic information on LG resources and service delivery outputs and outcomes.</p>	<p>SBS strongly contributed to better alignment of aid flows for support to decentralised service delivery in two major ways: (i) several donors switched from ABPs to LGCDG; (ii) several sectors chose to integrate sector development financing for LGAs with the LGCDG in the form of “sector windows”. However, sector windows often involve some derogation (e.g. separate process to trigger disbursements, elements of separate reporting).</p> <p>The approach to LGA capacity development (through the CB grant system) has replaced large and expensive TA associated with the ABPs.</p>	<p>The performance assessment framework provided an incentive for LGAs to overcome capacity gaps and a way for central government to better monitor capacity issues. The demand-driven approach to LGA CB worked well, enhancing LAGs’ ownership of CD and being more cost-effective than the APB TA. As a result, SBS had a strong effect on LGA capacity in core LG functional areas (council planning, procurement, HR management and FM), as showed by the increased proportion of LGAs meeting the minimum conditions. However, the approach doesn’t work well when performance indicators are not clearly defined and/or are introduced without adequate CD measures enabling LGAs to meet the expected performance.</p> <p>In spite of relatively good outreach to sectors, the effects on LGAs’ service delivery capacity are undermined by the discrepancy between locally-decided capital investments and the constraints prevailing on the expansion of service delivery staff and the limited ability of LGAs to finance other recurrent expenses. There are plans to address this in the second phase of the programme but they are still vague. Moreover, systems to measure service delivery improvements are still weak.</p>

#### iv) Domestic Ownership, Incentives, and Accountability

	Inputs	Effects	Outputs
	<p>How do SBS inputs support</p> <ul style="list-style-type: none"> <li>▪ Stronger policy ownership and</li> </ul>	<p>SBS contribution to aid alignment with domestic</p>	<p>SBS influence on ownership, incentives &amp; domestic accountability (stronger sense of responsibility &amp; demand for performance etc.)</p>

	Inputs	Effects	Outputs
	incentives to implement? <ul style="list-style-type: none"> <li>▪ Stronger domestic accountability<sup>14</sup>?</li> </ul>	ownership, incentives and accountability	
	Derogations	Effects of derogations	
<b>Tanzania LGCDG</b>	<p><b>Contextual factors:</b> Policy and Local Government Reform Programme launched in 1998; Mixed progress in implementation (expanding fund transfers but limited scope for LGA discretion; lack of progress in decentralising staff management; little progress in legal framework for devolution and mixed messages from other legal developments; politically-motivated central interference in local processes); Common Basket Fund support to system and LGAs capacity development (LGRP), project support to central management capacity, area-based programme (ABP) support to specific LGAs (capacity and development funding), introduction of LGCDG (modelled on Uganda LGDP) in 2004.</p>		
	<p>The dialogue around the LGCDG succeeded in drawing in sectors and MOF at high level.</p> <p>The performance assessment framework included incentives aimed to strengthen supply-led accountability (e.g. LGAs have to adequately inform citizens on their resources) and to encourage councillors and citizens' participation to local planning and budgeting.</p> <p>LGCDG transfers became more reliable over time.</p>	<p>SBS strongly contributed to better alignment of aid flows for support to decentralised service delivery in two major ways: (i) several donors switched from ABPs to LGCDG; (ii) several sectors chose to integrate sector financing for LGAs with the LGCDG in the form of "sector windows". However, sector windows often involve some derogation (e.g. separate process to trigger disbursements, elements of separate reporting).</p>	<p>The approach promoted by the LGCDG is broadly owned, including by MOF which is committed to build on it to further harmonise local level funding modalities. Donors switching from ABPs to LGCDG reinforced GOT ownership. "The LGCDG came to form the core of a GOT system for transfers and management of LG development funding." MOF indicated that it was the preferred modality for development aid flows to LGAs. However some (critical) parts of the system, like the annual assessment, are not yet fully owned by all parts of GOT as concerns are raised over the high costs (1 million USD annually – which is less than one percent of annual grant), the reliance on consultants (that other argue are required to ensure impartiality and technical competence/speed) and concerns over completely cutting off development funds to disqualifying LGAs – the latter is being changed in the new assessment manual and more emphasis given to relative adjustments through performance measures.</p> <p>The system of annual performance assessment gave significant incentives for LGAs to adhere to guidelines and practices of good local governance such as greater participation of councillors and citizens to planning and budgeting. The system also enforced local accountability of staff to their councils, as it gave a clear benchmarking to councillors. Efforts to strengthen budget transparency and more generally the "supply side" of LGAs accountability were met by NGOs and civil society stepping up efforts to make use of the information. Increased reliability of LGCDG transfers made it meaningful to demand performance and accountability from LGAs. Together these are trends strengthening LGAs' accountability including</p>

<sup>14</sup> Understood as accountability to parliament, of sector spending agencies to Min Finance, of scc providers to sector ministry/LG, of scc providers to citizens, of LGs to sector ministries (within respective mandates)

	Inputs	Effects	Outputs
			downwards. However, these are undermined by central government and party interference in local prioritisation processes. There may also be some confusion in incentives and accountability arising from different requirements under the different “sector windows”, and there almost certainly is arising from the continuation of very different incentive/accountability regimes (based on prescriptions and earmarking) attached to GOT recurrent transfers to LGAs, and to sector aid transfers such as those from the health SBS programme.

#### d) The Outputs and Outcomes of SBS

	Main SBS Outputs Influencing Outcomes	Outcomes Influenced by SBS
	Changes in sector policy, spending, institutions, service delivery systems and accountability influencing sector outcomes	Changes in the implementation of sector policies and delivery of services influenced by SBS
<b>Tanzania LGCDG</b>	<p>Firstly, SBS introduced a system for transparent allocation of development resources through LGAs based on existing Government procedures. This provided a firm basis for further continued reform and improvement of the intergovernmental fiscal framework. This system enhanced citizen and council participation in planning and budgeting processes. In this context resources for local development activities were expanded significantly, which resulted in a large number of satisfactorily implemented development schemes. There does however remain a weak link between investment and recurrent funding in the framework for inter-governmental fiscal transfers.</p> <p>The annual assessment process, linked to the access of development transfers, provided an incentive framework for LGAs that also has enabled a more demand driven approach to capacity building. The system has led to significant improvements in LGAs capacities and their adherence to regulations in particular for procurement and financial management.</p> <p>However there are gaps which SBS has not addressed. For example, M&amp;E systems have shortcomings and inter-sectoral coordination remains weak, and there is a reluctance to embrace decentralisation in other sectors.</p>	<p>LGDCDG has provided substantial resources for investments at the local level, which has expanded service delivery infrastructure and development activities in a relatively equitable manner. It is reasonable assume that this has had a positive impact on service delivery outcomes, although dependent on external factors in other sectors.</p> <p>However a key question remains the sustainability of these impacts, in particular catering for the recurrent implication of investments, and addressing these problems are exacerbated as a result of weak inter-sectoral coordination.</p> <p>The incentive framework has had a clear impact on institutional capacity, including areas such as financial management, which is reasonable to assume has helped improved the efficiency of service delivery more broadly. The involvement of councils and citizens in the process has helped strengthen local accountability.</p>

## Annex 2: Country and Sector Data

### a) Core Country Data

Tanzania	1990	1995	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	SSA (2007)
Exports of goods and services (% of GDP)	13	24	15	15	17	16	17	20	22	21	22	-	<b>34</b>
GDP growth (annual %)	7	4	4	4	5	6	7	6	7	7	7	7	<b>6</b>
GNI per capita, Atlas method (current US\$)	190	160	230	250	260	270	270	290	310	350	370	410	<b>951</b>
GNI per capita, PPP (current international \$)	590	640	700	720	750	800	850	890	950	1,040	1,120	1,200	<b>1,869</b>
Gross capital formation (% of GDP)	26	20	16	16	18	17	19	19	18	16	17	-	<b>22</b>
Inflation, GDP deflator (annual %)	22	27	14	12	7	7	6	7	9	20	4	6	<b>6</b>
GDP (current US\$m)	4,259	5,255	8,383	8,638	9,079	9,441	9,758	10,283	11,351	14,142	14,178	16,181	<b>847,438</b>
Official development assistance and official aid (%GDP)	27	17	12	11	11	14	13	17	16	11	13	17	<b>4</b>
Official development assistance and official aid (current US\$m)	1,163	869	1,000	990	1,035	1,275	1,257	1,721	1,765	1,491	1,825	2,811	<b>35,362</b>
Revenue, excluding grants (% of GDP)	-	-	-	-	-	-	-	-	-	-	-	-	-
Total debt service (% of exports of goods, services and income)	33	18	20	19	13	8	6	4	4	4	3	3	<b>5</b>
Fertility rate, total (births per woman)	6	6	-	-	6	-	6	-	-	5	5	5	<b>5</b>
Population growth (annual %)	3	3	2	2	2	3	3	3	3	3	3	2	<b>2</b>
Population, total (m)	25	30	32	33	34	35	36	37	38	38	39	40	<b>800</b>
Income share held by lowest 20%	-	-	-	-	7	-	-	-	-	-	-	-	-
Poverty headcount ratio at national poverty line (% of population)	-	-	-	-	-	36	-	-	-	-	-	-	-
Agriculture, value added (% of GDP)	46	47	45	45	45	45	45	45	46	46	45	-	<b>15</b>
Primary completion rate, total (% of relevant age group)	-	-	48	57	-	55	59	-	59	56	74	85	-
Ratio of girls to boys in primary and secondary education (%)	-	-	98	99	-	-	-	-	-	-	-	-	-
Births attended by skilled health staff (% of total)	-	-	-	44	-	-	-	-	-	43	-	-	<b>45</b>
Contraceptive prevalence (% of women ages 15-49)	-	-	-	25	-	-	-	-	-	26	-	-	<b>23</b>
Immunization, measles (% of children ages 12-23 months)	80	78	78	72	78	83	89	97	94	91	93	90	<b>73</b>
Life expectancy at birth, total (years)	51	49	-	-	49	-	50	-	-	51	52	52	<b>51</b>
Malnutrition prevalence, weight for age (% of children under 5)	-	-	-	25	-	-	-	-	-	17	-	-	<b>27</b>
Mortality rate, under-5 (per 1,000)	157	154	-	-	143	-	-	-	-	124	-	116	<b>146</b>
Prevalence of HIV, total (% of population ages 15-49)	5	7	7	7	7	7	7	7	6	6	6	6	<b>5</b>
Roads, paved (% of total roads)	37	4	4	4	4	-	-	9	-	-	-	-	-
Improved sanitation facilities, urban (% of urban population with access)	29	30	-	-	31	-	-	-	-	-	31	-	-
Improved water source (% of population with access)	49	50	-	-	53	-	-	-	-	-	55	-	-

## b) Additional Sector Data

### LG Funding Streams in Tanzania FY 2008/09

Recurrent Transfers		Development Transfers	
<b>Primary Education</b>		<b>Primary Education Development Grant:</b> 5,000,002,000	
Primary Education Block Grant:	506,395,375,000		
PE Ceiling:	414,994,972,000		
OC Ceiling:	91,400,403,000		
of which: Capitation Amount	45,482,836,450		
of which: Special Schools Allocation	2,176,000,000		
of which: Non-earmarked OC	43,741,566,550		
<b>Health</b>			
Primary Health Block Grant:	137,699,733,000		
PE Ceiling:	108,759,474,000		
OC Ceiling:	28,940,259,000		
Health Sector Basket Fund Subvention:	47,667,628,000		
<b>Agriculture &amp; Livestock Development</b>		<b>Agriculture Sector Dev. Programme:</b> 78,903,404,669	
Agriculture Block Grant:	24,306,183,000	DADG	25,582,956,568
PE Ceiling:	19,725,416,000	A-CBG	17,996,847,826
OC Ceiling:	4,580,767,000	A-EBG	9,439,336,776
		PADEP (Inv. & Capacity)	5,962,269,499
		DASIP (Inv. & Capacity)	19,921,994,000
<b>Local Roads</b>		<b>LGTP / VTTP:</b> 18,265,000,000	
Council Roads Block Grant:	9,697,910,000	LGTP:	16,400,000,000
PE Ceiling:	6,805,008,000	VTTP:	1,865,000,000
OC Ceiling:	2,892,902,000		
Roads (Fuel Levy) Fund Allocation:	24,422,599,000		
<b>Rural Water Supply</b>		<b>Rural Water Development Programme:</b> 62,386,934,000	
Rural Water Block Grant:	15,643,361,000	Of which RW-CDG:	59,614,934,000
PE Ceiling:	5,973,849,000	Of which RW-CBG:	2,772,000,000
OC Ceiling:	9,669,512,000		
<b>General Purpose</b>		<b>LGCDG:</b> 85,230,165,800	
General Purpose Grant:	111,823,201,000	Of which LGCDG CDG:	79,451,671,000
PE Ceiling:	69,792,044,000	Of which LGCDG CBG:	5,778,494,800
OC Ceiling:	42,031,157,000		
of which: Ration Allowance	456,700,000		
of which: Formula-Based OC	41,574,457,000		
<b>Other Sectors / Functions:</b>		<b>UDEM:</b> 5,820,511,585	
HIV/AIDS Subventions:	25,032,356,000	UDEM Grant	3,350,741,585
TACAIDS Allocation	10,732,356,000	UDEM CBG Grant	2,469,770,000
Global Fund Allocation:	14,300,000,000		
Other Department Grants (OC):	2,376,000,000	<b>PFM / SWM Grants</b> 5,626,251,000	
Natural Resources	316,800,000	Participatory Forestry Mgmt.	5,146,751,000
Planning	475,200,000	Sustainable Wetland Mgmt.	479,500,000
Community Dev.	475,200,000		
Cooperatives	475,200,000	<b>UNICEF Grant (Planning &amp; Budgeting)</b> 7,758,909,143	
Trade	316,800,000		
Lands	316,800,000	<b>Council Premises Grant</b> 1,680,000,000	
<b>Own Source Revenues</b>			
Own Source Revenues	61,411,259,961	Projected Own Source Revenues:	67,705,914,107
FY 2006/07		FY 2008-09 (based on 5 % annual increase)	