

***EVALUATION OF THE EUROPEAN  
COMMISSION'S SUPPORT TO THE UNITED  
REPUBLIC OF TANZANIA***

Volume 1 - Report

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*Evaluation for the European Commission*



This evaluation is commissioned by:

**the Evaluation Unit common to:**

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*The evaluation is managed by the evaluation unit which also chaired the reference group composed of members of the services (EuropeAid, DG Dev, and the EC Delegation in Tanzania) and the Embassy of Tanzania in Belgium.*

*The opinions expressed in this document represent the authors' points of view which are not necessarily shared by the European Commission or by the authorities of the countries concerned.*

### **Acknowledgements**

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*The authors also thank the Evaluation Unit for having permitted and even encouraged the building of a South-North evaluation team, an innovative approach that has turned out to be as effective, promising and mutually beneficial..*

## EXECUTIVE SUMMARY

Tanzania is heavily affected by poverty. This is a stable country which has contributed to the stability of the region for years through hosting hundreds of thousands of refugees. With a massive support of the donor community, Tanzania has implemented a successful macro-economic policy and a number of policy reforms. Its overall development performances are good. Together with development partners the Government has set up an innovative assistance framework, which is intensively scrutinised from all around the world.

### The evaluation

This report is part of the EC's evaluation programme covering external assistance. It is also part of the European Commission's efforts towards a result-oriented approach and a focus on impacts. It covers EC actions in Tanzania that are on-going or were started and/or finalised during the period 2000/2005 (first semester). It is delivered in time for being used in the design of the next country strategy paper, which is to start in the first part of 2006. Tanzania is a major recipient of EC support. That is why this evaluation is required for the purpose of accountability towards EC policy makers, the European Parliament, the Member States and the European citizens.

This evaluation has been managed by the Evaluation Unit common to DG DEV, RELEX and EuropeAid, and carried out by a joint Tanzanian-European team. All of these actors are independent from the services in charge of designing and managing EC support. The conclusions stem from evidence gathered through an exceptionally large number of recent documents, and from about 100 informants in Brussels, Dar es Salaam and four Tanzanian regions: Iringa, Kilimanjaro, Mwanza, and Ruvuma.

### Country strategy

The country strategy was designed to be aligned on the Government's Poverty Reduction Strategy, in terms of both objectives and priority sectors/areas. The bulk of EC support has therefore been oriented towards needs and challenges identified through a legitimate process. In terms of sectors / areas, *de facto* priorities have remained aligned.

EC priorities were formerly focused on economic growth and social development. In 2001, the country strategy introduced poverty reduction as a new overarching goal appended to a basically unchanged logic. The evaluation team considers that the overall objective of poverty reduction has not been clarified enough. With a view to clarify this issue, the portfolio of EC interventions has been analysed through five categories of intended impacts called "paths towards poverty reduction".

*De facto*, EC funds have been mainly oriented towards: "conducive economic environment", "growth of activities where the poor engage" and "equitable access to basic services". The weight of the two last categories ("improving basic services" and "reducing vulnerability") is much lighter.

The profile of EC efforts (human resources and input into policy dialogue) is similar but there are indications that "equitable access to basic services" was not high on the agenda.

This evaluation did not reflect on the fact that a given poverty reduction profile would be better than another. However, it includes a negative assessment of the fact that the approach to poverty reduction remained implicit. The EC is therefore unable to explain and justify why a low or very low priority is given to the issues of equity and vulnerability.

The EC's approach to strategy-making has been disappointing in several other respects. It has not delivered the expected benefits in terms of concentration and predictability, except as regards general budget support in the later case. In addition, it has increased the transaction costs borne by the Government, actually in a limited proportion, but to an extent that would become excessive if all donors were to launch multiple strategy-making processes at multiple points in time.

In several instances, efforts to mainstream cross-cutting issues have taken place at the right level (environment and budget support, gender and education, gender and roads), and significant successes have been achieved. The EC has purposely directed its efforts towards areas where cross-cutting issues were particularly challenging and this has to be praised. In other instances, the efforts (sometimes successful) owe

to circumstantial factors, or to routinely applied procedures, and their high priority has not been fully demonstrated.

### **Impact of EC support**

At the level of the country as a whole, most expected progress has occurred, with exceptions in two areas: quality of education, and corruption. Significant progress occurred in areas like macro-economic stability, enrolment in education, health, roads and access to water.

The EC has contributed to this progress in many ways. First, the general budget support has been additional in terms of expenditures in the priority sectors, and therefore in the results achieved. Second, remarkable contributions have been achieved through a mix of sector policy dialogue and large financial support in sectors like education and roads. Some projects have also achieved impressive impacts, although at a lower scale, for instance a very substantial increase in farmers' income in some tea/coffee growing areas.

This evaluation has paid special attention to the impact of EC-supported road investments on poverty reduction. An in-depth field study has identified impressive impacts of road investments in terms of poverty reduction, especially through "equitable access to basic services". Stand-alone road projects are, however, insufficient for achieving such impacts, which stem only from a well maintained road network, consistently connecting trunk roads, feeder roads and local roads.

### **Policy dialogue**

The Tanzanian innovative approach to harmonised policy dialogue is unquestionably effective, but it is still too early to qualify it as a success story.

In this framework, the EC Delegation has made important contributions. It has played a key role in assisting the Government with developing sector strategies and sector budget support for agriculture, education, roads and trade. In these sectors and in several other areas, the EC Delegation shows a strong commitment in supporting the Tanzanian approach to co-ordination. These achievements could not have taken place without the recent de-concentration process and the associated growth in the Delegation's staff.

The movement towards sector policy reforms has, however, been generally slow, which delayed the introduction of the sector budget support. Effective policy dialogue has been impeded by weak institutional frameworks within the Government. Although the EC has wisely connected substantial financial support to progress towards policy reforms, its commitment to the JAS process has not always succeeded in ensuring consistency in development partners' actions. This inconsistency has resulted in under-effective dialogue in areas like education and agriculture.

Due to slow progress in policy dialogue, a part of the support has been delayed. This stems from the fact that financial support and policy reform have often been related in an "all-or-nothing" way<sup>1</sup>. Such an approach has been successful in promoting a major policy reform in the road sector in the late 90's, but the success has been paid a high price in terms of delayed disbursement, and the pace of reforms has not been maintained during the following years. In several instances, the financial support has been interrupted, although significant poverty reduction effects could have been achieved in the absence of the awaited policy reform. In addition the "all-or-nothing" approach collides with the willingness of development partners, and EC in particular, to increase their financial support significantly.

The more flexible approach of "variable tranche", as applied to general budget support over the last two years, is likely to be an effective alternative. Its actual effectiveness in encouraging policy reforms has, however, not yet been proved, as shown in the area of fight against corruption.

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<sup>1</sup> This "all-or-nothing" approach will be progressively phased out with the use of variable tranche mechanisms for disbursing an increased proportion of funds (general budget support and planned 9<sup>th</sup> EDF support to education).

## Funding modalities<sup>2</sup>

There is consensus between the Government and the development partners towards developing budget support (either general or sector) at the expense of traditional funding modalities like basket funds<sup>3</sup> and projects. In the case of Tanzania, this evaluation confirms that general budget support has been the best funding modality in most respects, and particularly as regards improving predictability, Government ownership, and promoting democratic accountability.

General budget support has had an equal or even better potential to contribute to poverty reduction. In addition to a better alignment of general budget support on Government's priorities, this conclusion builds upon a comparative analysis of several factors contributing to poverty reduction, which have been identified through this evaluation.

In the current Tanzanian context, and subject to confirmation within the next few years, budget support and the "variable tranche" mechanism offer a good compromise between the need to increase financial aid and the principle of progress-related support.

By contrast, projects and basket funds are still better at preventing financial leakages, and at involving civil society. Stand-alone projects nevertheless have three major limitations: (1) they are disconnected from the harmonised policy dialogue, (2) they may attract limited human resources away from strategic priorities, and (3) they depend on wider policy reforms and/or local integrated development in order to fully achieve their potential impacts. On the contrary, these modalities have been used successfully, for instance in order to test new ideas, to open pathways into new areas of cooperation, to strengthen the capacity of the Government or Non State Actors, or to pave the way towards a wider sector approach. This means that real-life choices are not that much a matter of selecting one best modality, but rather of setting up an adequate mix and/or sequence of funding modalities.

### Box 1 – Transferable lessons

In a country like Tanzania with a high level of rural poverty and a low density of population, road investments generate impressive impacts in terms of poverty reduction, especially through "equitable access to basic services". Stand-alone road projects are, however, insufficient for achieving such impacts, which stem only from a well maintained road network, consistently connecting trunk roads, feeder roads and local roads.

The current approach to strategy making process does not keep its promises. It does not achieve to concentrate efforts and to optimise the use of limited human resources. It does not secure the predictability of financial support. It does not favour forward-looking approaches. It does not clarify how the EC is to actually tackle poverty. In addition, it increases the transaction costs borne by the Government, actually in a limited proportion, but to an extent that would become excessive if all donors were to launch multiple strategy-making processes at multiple points in time.

Remarkable contributions to poverty reduction are achieved through a mix of large financial support sector and policy dialogue, provided that all major donors take harmonised positions and act consistently.

The evaluation team considers that some of the above conclusions are of general interest and would deserve to be capitalised and transferred to global level and/or other countries. Subject to confirmation through other evaluations, the main transferable lessons would be as displayed in Box 1.

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<sup>2</sup> Note that the scope of this evaluation did not include any sector budget support, which means that conclusions could not cover this modality.

<sup>3</sup> Most operations co-funded with other development partners were launched under Commission guidelines describing the modality as "common pool funds" in a relatively restricted way. The attitude of EC Headquarters has recently evolved towards a more open framework, which now tends to blur the border between sector budget support and basket funds. The encompassing term of joint management operations is therefore increasingly used.

## Recommendations

Since this evaluation is finalised when the next country strategy is being designed, most recommendations focus on the strategic priorities.

Focal sectors remain an obligation under the 10th EDF Programming Guidelines. Although this approach has not prevented EC's efforts and human resources from spreading over virtually all sectors in the last years, the rule has to be respected. What is recommended in this respect is a continued concentration of funds in areas where EC's comparative advantages are well established: (1) road network, and (2) basic education.

The evaluation team however considers that the concentration of funds is a principle of lesser importance for two reasons: (1) a large part of the funds is being channelled through General Budget Support, and (2) up to 15% of funds will continue to be allocated to non focal activities. It is therefore proposed to adopt another way of applying the concentration principle. In line with the Government's new strategy paper (NSGRP) which is structured along poverty reduction outcomes, it is recommended that the next EC strategy focuses on two focal outcomes: (1) access to markets, and (2) equal and universal access to basic services.

Such a dual approach to concentration (2 sectors and 2 outcomes) is innovative. Although it is assumed to be compatible with EC rules, procedural problems may have to be solved, and this requires this innovation to be actively supported by EC services at headquarter level.

In addition to the focal sectors and outcomes, the issue of governance needs to be paid special attention. It is recommended to consider governance as a prerequisite to all other outcomes, and to give it the status of a top cross-cutting priority.

This report casts doubts about the capacity of the EC strategy-making process to foresee and to address future challenges. Far from being used in a forward-looking way, the previous exercise could be understood to have been a ritual exercise which has lost its interest once funds were programmed. This has not prevented the EC from successfully addressing cutting-edge issues like in the area of trade, something which was not anticipated in the strategy paper. It is therefore recommended to introduce future challenges as a key component of the next country strategy. This should be done through highlighting "cutting-edge issues", i.e. (1) technical barriers to trade, which might become a priority sector in the future, and (2) vulnerability, which might become a priority outcome in the future. The continued relevance of these cutting-edge issues should be reconsidered periodically.

This report shows that the predictability of disbursements has been undermined because the EC has established an all-or-nothing relation between financial support and sector policy reforms. General Budget Support has been the only channel through which large financial support has been disbursed in time, while maintaining a connexion with policy reforms through the variable tranche mechanism. Untargeted sector budget support would probably entail similar benefits<sup>4</sup>. It is therefore recommended that the EC increases the share of budget support at either sector or general level.

In connection to this move, the EC Delegation should maintain, and even strengthen, its request for an effective and high-level dialogue on governance issues like anti-corruption, strengthening local governments' capacity, and increasing the role of non-state actors.

The report concludes that sector policy reforms have been successfully fostered when all development partners acted consistently, and vice-versa. Coordination is even more necessary in the instance of flexible progress-related approaches like the variable tranche, which is intrinsically weaker than traditional approaches in terms of incentives. The EC should therefore continue to coordinate with other donors in order to harmonise the assessment of, and response to the progress of policy reforms. Such a harmonisation should be sought with EU Member States in priority.

In connection with the increasing role of budget support, the EC should continue to require the setting and monitoring of appropriately quantified performance targets. This requirement should, however, become part of a wider approach to gathering and using impact information. The approach should encompass indicators,

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<sup>4</sup> Something which remains an assumption because the modality was not used in Tanzania during the period under evaluation.

evaluations, monitoring, research, studies and statistics. In addition to a mechanistic use of indicators in the calculation of disbursements, the EC should promote actual learning from existing impact information.

Developing budget support does not mean that the project modality should be avoided. On the contrary, the EC Delegation should rely upon projects when relevant, for instance in order to open pathways into new areas of cooperation, to strengthen the capacity of the Government or Non State Actors, or to pave the way towards sector budget support. As far as possible, the EC Delegation should integrate its projects into a long-term vision involving a reasoned balance of funding modalities.

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## ACRONYMS

ACP	Africa Caribbean Pacific
ADB	African Development Bank
ASDS	Agricultural Sector Development Strategy
BEDC	Basic Education Development Committee
COMESA	Common Market for East and Southern Africa
CSP	Country Strategy Paper
DAC	Development Assistance Committee
DP	Donor Partners
EAC	East African Community
EC	European Commission
EDF	European Development Fund
EIB	European Investment Bank
EPA	Economic Partnership Agreement
ESDP	Education Sector Development Plan
ESRF	Economic and Social Research Foundation
EU	European Union
GBS	General Budget Support
GDP	Gross Domestic Product
Government	Government of Tanzania
GWG	Governance Working Group
HIPC	Heavily Indebted Poor Countries
IMF	International Monetary Fund
LGRP	Local Government Reform Programme
LGCBP	Local Governance Capacity Building Programme
JAS	Joint Assistance Strategy
MDG	Millennium Development Goals
MSME	Micro, Small and Medium Enterprises
MoW	Ministry of Works
MTEF	Medium-term expenditure framework
NGO	Non Governmental Organisation
NIP	National Indicative Programme
NPES	National Poverty Eradication Strategy
NSA	Non-State Actors
NSGRP	National Strategy for Growth and Reduction of Poverty
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PAF	Performance Assessment Framework
PCB	Prevention of Corruption Bureau
PEDP	Primary Education Development Programme
PER	Public Expenditure Review
PF	Partnership Framework
PORALG	President's Office - Regional Administration and Local Government
PRS	Poverty Reduction Strategy
PRBS	Poverty Reduction Budget Support
PRSC	Poverty Reduction Support Credit
RDS	Rural Development Strategy
RF	Road Fund
RFB	Road Fund Board
RIO	Regional Integration Organisations
RIP	Regional Indicative Programme
RSP	Regional Strategy Paper
SADC	Southern African Development Community
SAF	Structural Adjustment Facility
SBS	Sector Budget Support
TA	Technical Assistance
TaCRI	Tanzania Coffee Research Institute

TAS	Tanzania Assistance Strategy
TDV	Tanzania Development Vision 2025
ToR	Terms of reference
TRIT	Tea Research Institute of Tanzania
WB	World Bank

## 1. THE EVALUATION

### 1.1. Framework

This evaluation serves for purposes of accountability to the European Commission, the European Parliament and the Council, and ultimately European citizens.

It is also part of the European Commission's efforts towards a results-oriented approach and a focus on impacts.

The Commission Services have requested the Evaluation Unit (common to EuropeAid Co-operation Office, Directorate General for Development and External Relations Directorate-General) to undertake an Evaluation of the European Commission's support to the United Republic of Tanzania, hereafter referred to as Tanzania. The present evaluation is part of the 2004 evaluation programme as approved by the Board of the EuropeAid Co-operation Office.

Having consulted relevant EC services, the Evaluation Unit prepared the terms of reference for this evaluation (see Volume 2) and recruited the external evaluation team.

### 1.2. Scope

The central scope of the evaluation (i.e. what is to be assessed) is EC support to Tanzania since 1/1/2000, covering the current country strategy and National Indicative Programme for 2001-2007, and the past EC co-operation strategies with Tanzania. The scope includes every EC action started and/or finalised over the period 2000/2005 (first semester), including EDF funded projects/programmes, STABEX, emergency aid and budget lines.

The focus is on the following areas and instruments of cooperation: transport infrastructure, basic education, trade and, finally, good governance which is a prerequisite for effective support and an area of support in itself. Attention is also paid to support to non-state actors, general budget support, including policy concerning technical assistance, and support to the National Authorising Officer.

The evaluation takes account of the recent reforms of the RELEX services, including de-concentration.

The actions under evaluation are studied in relation to other relevant and connected interventions (extended scope), particularly: the Tanzania Poverty Reduction Strategy and related Government policies, regional initiatives affecting Tanzania (EAC and SADC), as well as EC actions at regional level, all-ACP programmes for which Tanzania was eligible during the period under review, e.g. ACP Water Facility, EIB loans, other donors' support to Tanzania, and other EC policies like trade, refugees, environment and agriculture.

### 1.3. Intended users and uses

This evaluation is meant to provide feedback for the implementation of the current Strategy and the Indicative Programme, in designing the next cycle of EC strategy – which is to start at the beginning 2006 – and in policy discussions with the Government of Tanzania and other development partners.

EC evaluations are meant to serve the purpose of accountability towards the Commissioners with responsibility for External Relations, the European Parliament, the Member States and the European citizens. This obligation is even more important for a country like Tanzania, which is a major recipient of EC support (see 3.2).

For the development aid community, Tanzania is an interesting case. It has high poverty incidence levels and receives more than average international aid funding. It also has set up innovative initiatives for the management and governance of international aid. This context suggests that there is a potential to learn

lessons likely to benefit EC services and the Government of Tanzania, and to pass such lessons on to the development aid community as a whole.

## 2. TANZANIA AND CO-OPERATION CONTEXT

### 2.1. Tanzania compared to other countries

Tanzania's performance has been compared to a group of seven African countries that the evaluation team considered similar enough to Tanzania, i.e. Burkina Faso, Gambia, Ghana, Madagascar, Mali, Niger and Zambia (see Volume 2). A set of 18 indicators shows that Tanzania surpasses similar countries regarding quality of life and social well-being. Nevertheless, when it comes to life expectancy, Tanzania is behind. Life expectancy has declined dramatically over the last years due to HIV/Aids. Economic indicators are very similar to those of the chosen group of African countries<sup>5</sup>. Governance indicators are well below average. Progress in general is higher than average, except for economic development.

Tanzania was also compared with EU countries in the following indicators:

Table 1 – Tanzania compared to European countries

<i>Indicators</i>	<i>Tanzania</i>	<i>EU 15</i>
<b>Quality of life and social well-being</b>		
Under 5 mortality rate (per 1,000) in 2002-2003	165	5
Net enrolment ratio in primary education (% of age group) in 2001-2002	69	99
Gender Parity Index in basic education in 2000	98	102
Life expectancy in 2003	43	78
<b>Economic development</b>		
Direct foreign investment (% of GDP) in 2003	2.4	10
Debt (% of GDP) in 2003	34	63
Agriculture value added (% of GDP) in 2003	45	2

Sources: World Bank (<http://devdata.worldbank.org/edstats/query/default.htm>)

### 2.2. Tanzania's economic development<sup>6</sup>

In the mid 1990s, GDP per capita was stagnating, inflation was double-digit and the borrowing level was unsustainable (both foreign and domestic debt). During the last fifteen years, Tanzania has been developing an environment of macroeconomic stability by reorienting its economy to market-based operations and creating space for exploiting the large potential of private initiative. Tanzania's economy has shifted from low to higher performance since the mid-1990s and macro-economic performance is currently high (see 6.2.1).

The early 1990s were significant because of a generation of reforms focused on deeper institutional reform to support and sustain market orientation, to open up the political system, and to develop institutional capacities. Credit to the private sector has been growing at double digit rates since 1997 and Foreign Direct Investment has now reached an annual average inflow of 3 per cent of GDP (USD 300 million per year).

<sup>5</sup> Partly because these countries have been considered as similar by referring to economic indicators.

<sup>6</sup> This section consists mainly of edited extracts of the recent GBS evaluation.

Noteworthy economic and trade integration has begun with the formation of a Customs Union which became operational on 1 January 2005 between the three EAC member states (Tanzania, Uganda and Kenya)<sup>7</sup>. The EAC envisages the future creation of a common market and eventually a political federation.

There are still concerns, however, about the pattern of growth, which has been concentrated predominantly in sectors like mining, tourism and fisheries. Gold exports increased up to 90% between 1999 and 2004, but the challenge facing the Government of Tanzania is to translate these macro achievements into tangible development that will eradicate poverty.

### **2.3. Poverty in Tanzania**

In 1991/1992, around 27 percent of the population were in households whose total expenditure was insufficient to procure enough food to meet their nutritional requirements, and about 48 percent of the households were unable to meet food and non-food basic requirements<sup>8</sup>.

A recent synthesis<sup>9</sup> of poverty-related data suggests that slight improvements in the incidence of income poverty may have occurred in the late '90s. However, it was only in Dar es Salaam that the measured change was statistically significant, reducing the proportion of those in poverty from 28 to 18 per cent. Signs that income inequality had been growing are also reported. About 87 per cent of poor and extremely poor live in rural areas, while less than 3 per cent live in Dar es Salaam.

While GDP growth per capita has been significant and rising in recent years, the structure of this growth has not favoured the poor. Mining and tourism have both been dynamic and, along with aid, have helped to fuel capital-city growth. However, agriculture and other widespread rural activities and have not yet substantially increased their growth rates.

### **2.4. Government's poverty reduction strategy**

Recognizing the enormous challenge in fighting poverty, the Government of Tanzania has shown a clear intention to focus on priorities like poverty eradication. Tanzania formulated its first Poverty Reduction Strategy (PRS) in the year 2000. The PRS was a response to the enhanced HIPC initiative, through which Tanzania was, in April 2001, declared eligible for debt relief. The resources which were expected to be generated from debt relief were to be channelled towards poverty reduction.

The PRS was designed together with Tanzania Development Vision 2025, a long-term outline of social and economic development goals and aspirations: high and shared growth, high quality of life, peace, stability and unity, good governance, high quality of education and international competitiveness. A National Poverty Eradication Strategy was formulated in order to convert the long-term vision into eradication objectives, linked to the International Development Goals. The Government identified priority areas for public expenditure through a systematic medium-term expenditure framework (MTEF) and annual public expenditure review (PER). This process has contributed to the fiscal policy framework.

The PRS framework translated the processes described above into high-priority actions and developed impact-assessment indicators. It was also a process for a more systematic involvement of the private sector and civil society in the fight against poverty.

The National Strategy for Growth and Reduction of Poverty (MKUKUTA being the acronym in Swahili) is a second national organising framework for putting poverty reduction high on the country's development agenda. It is expected to last 5 years, (i.e. from 2005/06 to 2009/10). The strategy includes the Millennium

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<sup>7</sup> Tanzania is also a member of the Southern African Development Community (SADC). It left COMESA in September 2000.

<sup>8</sup> Government of Tanzania's Poverty Reduction Strategy Paper, page 6.

<sup>9</sup> This section consists of edited extracts of the recent GBS evaluation which builds upon many sources, particularly on the Poverty and Human Development Report, 2000/01 household survey (NBS, 2002, URT, 2002), Participatory Poverty Assessment, REPOA's Policy and Service Satisfaction Survey. Additional evidence might be used in this evaluation from 2002 census analyses and the 2004 Demographic and Health Survey.

Development Goals (MDGs), as internationally agreed targets for reducing poverty, hunger, diseases, illiteracy, environmental degradation and discrimination against women by 2015.

## 2.5. Development partners' support

The following table displays the cumulated Official Development Assistance committed to Tanzania from 2000 to 2003<sup>10</sup>. Tanzania is compared to the group of seven similar African countries. The European Union (EC + Member States) appears to allocate 53% of the development assistance received by Tanzania, which is close to the 50% average in the seven similar countries. However, the EC share is relatively lower in Tanzania and the EU Member State share is larger.

Table 2 - Cumulated assistance (commitments): 2000 to 2003

<i>Donor</i>	<i>Tanzania</i>		<i>Similar countries</i>	
	<i>Million USD</i>	<i>%</i>	<i>Million USD</i>	<i>%</i>
EC	546	10	1,802	14
EU Members	2,339	43	4,843	36
Multilateral	1,921	36	6,405	48
Others	626	11	225	2
Total	5,452	100	13,276	100

Sources: OECD - 2002 Prices

## 2.6. An innovative approach to co-ordination of development assistance

The Tanzanian government has launched innovative institutional arrangements for interacting with the donor community, set out in the Tanzanian Assistance Strategy 2000-2005 (TAS). TAS covers all the development areas that have characteristically been supported by the development partners, both within and outside the framework of the central Government budget.

Under this policy framework (TAS), the Government of Tanzania is promoting budget support and programme approaches, rather than the historical plethora of projects. The framework provides arenas for a harmonised policy dialogue in sectors/areas like agriculture, education, health, local government reform and rural development.

This approach is to be further expanded within the next years through the new Joint Assistance Strategy which is being designed at the time of this evaluation (see 5.1).

## 3. EC SUPPORT TO TANZANIA

### 3.1. Objectives and priorities at higher levels

#### 3.1.1. Global level

Article 177 of the Amsterdam Treaty (enacted on 1 May 1999) defines the EU development policy priorities as sustainable economic and social development, progressive and harmonious integration in the world economy, and poverty reduction.

<sup>10</sup> Only the 2000-03 period is recorded in the OECD database at the time of writing. However, it is worth noting that EC commitments were very low in 2004 and the beginning of 2005.

The declaration of 20 November 2000 on the European Community's development policy promotes a partnership approach which respects human rights, democratic principles, the rule of law and the sound management of public affairs. Resources available for development aid should be allocated in accordance with their impact on poverty reduction. The least developed countries should be given priority. Priorities are set in the areas of trade, regional integration, equitable access to social services, transport, food security and rural development, and institutional capacity building.

Horizontal issues like human rights, gender equality, children's rights and protection of the environment must be incorporated into all aspects of development cooperation. Conflict prevention and crisis management also require systematic attention.

### 3.1.2. ACP level

Since 1975 relations between the Africa Caribbean Pacific (ACP) states and the European Union (EU) have been governed by the Lomé Conventions which traditionally provide for: (1) specific ACP/EC trade preferences, and (2) development assistance.

The Cotonou Agreement was signed on 23 June 2000 and came into force on 1 April 2003. This document strengthens the political dimension of the partnership and sets the framework for negotiating new trade agreements, putting an end to the system of non-reciprocal trade preferences and enabling the ACP states to participate fully in international trade.

### 3.1.3. Regional level

Tanzania benefits from EC support within a Regional Indicative Programme (RIP) covering Eastern/Southern Africa and the Indian Ocean. The EC Strategy (under the 9<sup>th</sup> EDF) has focused on economic integration and trade, management of natural resources, and transport and communications.

## 3.2. Objectives and priorities of EC support to Tanzania

Tanzania is intensively supported by the EC. In 2003 it was the second largest non-European recipient country after Afghanistan in terms of disbursements<sup>11</sup>.

The current Country Strategy Paper was signed by the Government of Tanzania and the EC on 9 March 2002 after close consultation with state and non-state stakeholders and key donors, notably EU member states. Its ultimate objective is to reduce poverty by accelerating the process of sustainable economic and social development. Major sub-objectives are to eliminate constraints to economic growth and to improve the capacity for social service delivery. Objectives are analysed later on in this report (see 5.1)

In terms of sectors, the focus of EC commitments has evolved over the successive periods as shown in the following table.

Table 3 – Sectors receiving substantial EC support over the years

7 <sup>th</sup> EDF signed	8 <sup>th</sup> EDF signed	9 <sup>th</sup> EDF signed 2002
Roads Agriculture	Roads Water supply and sanitation Agriculture	Roads (focal sector) Basic education (focal sector) Governance and capacity building
Plus structural adjustment programmes followed by poverty reduction budget support		

<sup>11</sup> Annual Report 2004, Financial tables. Disbursements have been relatively higher in 2003 since de-concentration became fully operational this year and is reported to have eased disbursement procedures. The factors that explain the high rank of Tanzania among EU supported countries are reported to be: political stability and perceived quality of dialogue with the Government (interview in EC headquarters).

### 3.3. Implementation

#### 3.3.1. Resources

When the CSP was signed several programmes/projects under the 6th and 7th EDF were still on-going or being finalised (amounting to a total of EUR 19 million and 183 million, respectively). Most programmes/projects under the 8th EDF were still under implementation (amounting to a total of EUR 461 million in commitments). Indicative commitments under the 9th EDF amounted to EUR 290 million. Ongoing global commitments as at end 2004 from EDF funds was EUR 660 million.

A database has been set up for analysing all actions that have been “alive” during the time period covered by this evaluation, i.e. actions started since 01/01/2000 and terminated before 30/06/2005. They total 208, including projects funded under budget lines and 3 EIB loans. The cumulated resources amount to:

Table 4 – Resources committed, allocated and paid

<i>Resources</i>	<i>All evaluated interventions (million EUR)*</i>	<i>Interventions committed since 1/1/2000 (million EUR)</i>
Committed	1,012	561
Contracted	940	503
Paid	714	292**
Source: CRIS database cross-checked with Delegation's data, EIB loans not included		
* Total Commitments for all actions within the evaluation time-frame		
** Including payments before 1/1/2000. It was not possible to identify from any source the total figure actually paid during the 2000-2005 period on commitments which had commenced earlier.		

#### 3.3.2. Activities

Total commitments between 01/2000 and 06/2005 can be broken down into the following categories of activities:

- Large infrastructure projects (44%), e.g. rehabilitation of Zanzibar Port
- Grants for other projects and programmes (14%), e.g. 4th Micro projects Programme, or support to the Primary Education Development Programme
- Technical Assistance and Capacity Building Support (3%), e.g. Strengthening of the Tourism industry
- Studies including audits and evaluations (1%), e.g. Appraisal & Preparation of Education Sector Programme
- Another large share of support is channelled through the Government's budget (38%), e.g. Poverty Reduction Budget Support (PRBS).

#### 3.3.3. Funding modalities

During the period under evaluation, five funding modalities were used, as indicated by the following table. It may be noted that the number of distinct actions is considerably higher for projects as compared to budget support, although both modalities allow for similar amounts of financial support.

Table 5 – Resources per funding modalities

<i>Funding Modality</i>	<i>Cumulated commitments in %</i>	<i>Number of actions</i>
General support to the Government's budget	38	18
Basket funds	3	3
Projects funded under EDF and STABEX	49	125
Projects funded under budget lines	5	59
EIB loans (grant element)	5	3
TOTAL	100	208

### 3.3.4. De-concentration

The period under evaluation includes a major change in the implementation of EC support, i.e. de-concentration. Since 2003, the EC Delegation is in charge of and responsible for most implementation tasks. This change has been accompanied by a substantial increase in staff, although several months of delays and training problems have been reported.

Financial performance improved substantially in 2003 with global commitments, individual commitments, payments and closures reaching record levels. This is explained by the conjunction of four factors: (1) the intrinsic merits of de-concentrated management, (2) additional staff in the Delegation, (3) adequate support from headquarters when the Delegation encountered unforeseen problems, and (4) a favourable context, where Tanzania's reform process was on track (source: External Assistance Management Reports).

Financial performance has continued to improve in 2004. For instance, there has been a reduction in the time taken to process payment orders, from 30 days in the last quarter of 2003 to 17 days in the first quarter of 2004. And there was only one time-based extension of a project compared to 34 in the previous year.

De-concentration, and the associated staff increase, is also reported to have intensified the monitoring of projects and site visits. Successful efforts have furthermore been made in terms of visibility.

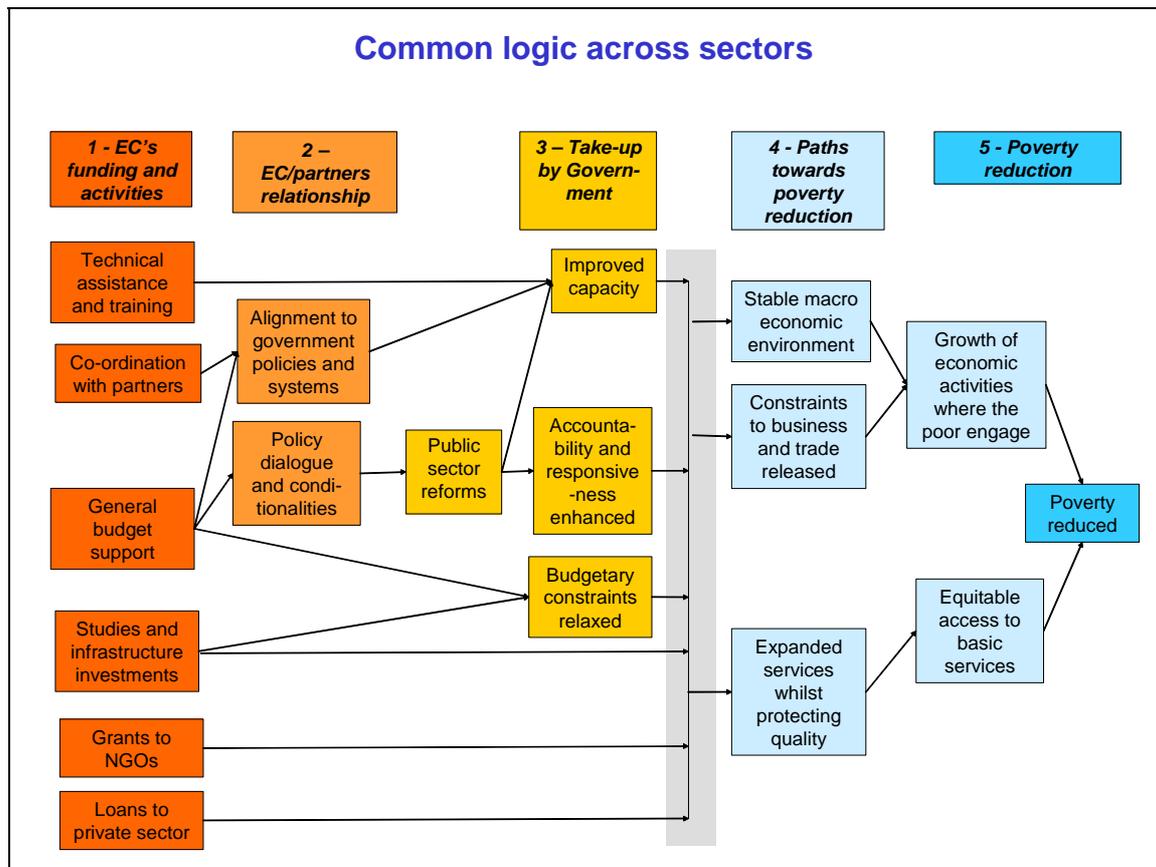
Perhaps the major benefit from de-concentration is to be found in the greater involvement of operational staff in policy dialogue, an issue which is developed later on (6.3).

### 3.4. Logic of EC support

Having analysed the 9<sup>th</sup> Strategy Paper and NIP through a series of logical diagrams (see Volume 2), the external evaluation team has taken a step forwards in uncovering the implicit logic of the documents. This has resulted in a simplified overall picture encompassing all EC interventions (see Figure 1).

The chains of expected effects are structured in five levels (1 to 5 on the figure) as in the recent joint evaluation of the general budget support to Tanzania. The fourth level is analysed with the concept of "paths towards poverty reduction" which is developed further on in this report (see 5.1).

Figure 1 – EC support to Tanzania, intervention logic revisited – evaluation team’s proposal



## 4. EVALUATION METHOD AND LIMITATIONS

The ultimate responsibility for the management and supervision of this evaluation rested with the Evaluation Unit common to DG DEV, RELEX, and EuropeAid Co-operation Office. The progress of the evaluation was closely followed by a reference group chaired by the Evaluation Unit, and consisting of members of all concerned services in the External Relations family, including the EC Delegation in Tanzania. The reference group has provided advice and support through several meetings and consultation rounds (see Volume 2).

The evaluation team was jointly led by Professor H.Amani and Mr J.Toulemonde, respectively Tanzanian and European experts. It involved several sector experts from both Tanzania and Europe. Mrs L.Barnett, a Tanzanian-based consultant, has managed the data collection process and the works of Tanzanian experts. This evaluation has therefore benefited from considerably more local input than similar evaluations carried out for the EC.

The evaluation concentrated on ten questions which are answered in Part 5 and which serve as a basis for the overall assessment presented in Part 6. These questions derive from a careful analysis of EC priorities and objectives. They were proposed by the evaluation team, and extensively discussed with and eventually approved by the reference group members. The ten questions guided the evaluation team's work in the sense that they helped focus data collection and analysis on issues of major interest for the intended users.

Probably due to its innovative approach to harmonised policy dialogue, aid to Tanzania is extensively, if not excessively<sup>12</sup>, monitored, audited, studied and evaluated by the various development partners. This has resulted in an abundance of available material, which means that this report relies on documents much more than other similar studies carried out for the EC (see list of documents selected for use in Volume 2). For the same reason, it was possible to reach provisional conclusions relatively early in the process, which facilitated the design of the field phase.

The other information sources supporting the evaluation team's conclusions are as follows:

- About 30 interviews at the EC headquarters, EC Delegation, Government of Tanzania and other donors' missions in Tanzania (see list of interviews in Volume 2)
- Four focus groups concentrating on the impacts of four EC-supported projects in various regions: Iringa, Kilimanjaro, Mwanza, and Ruvuma. About 70 participants have been involved in these focus groups, principally field-level beneficiaries in four distinct regions (methodological details in Volume 2. Full length reports in the attached CDROM).
- A panel of four academic experts has contributed to this evaluation through a two-round email consultation process (methodological details in Volume 2. Full length reports in the attached CDROM)

Generally, the evaluation team's answers to the questions derive from several information sources. The evaluation team has cross-checked sources as often as possible, e.g. through interviews and across documents, between interviews and documents, and between documents and findings arising from focus groups. The evaluation team has also undertaken a number of specific although generally light analyses like: benchmarking Tanzania's performance against a group of similar African countries (see 2.1), analysing the EC's portfolio of projects in terms of paths towards poverty reduction (see 5.1), and lexical analysis of strategy documents (5.1).

Several conclusions include cause and effect reasoning<sup>13</sup>. Generally the causality analysis strategy builds upon stakeholders' statements collected through interviews and focus groups with beneficiaries. The evaluation team has carefully analysed the risks of biases in the statements and the role of external factors.

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<sup>12</sup> There are indications that this trend has created excessive pressure on Government officials (see Volume 2). Informants in the EC Delegation state that they share the same kind of pressure.

<sup>13</sup> For instance, "The best EC contribution has been achieved through a mix of sector policy dialogue and heavy financial support in sectors like education and transport"; "Impressive impacts have been in terms of farmers' income in the tea/coffee growing areas"; "Large impacts of road investments in terms of poverty reduction"

The findings were organised during a brain-storming session of the core evaluation team in Dar es Salaam. They were subsequently discussed in two meetings attended (1) by the EC Delegation's staff and the deputy NAO, and (2) reference group members. They were then further refined through multiple checks in the process of writing this report.

Conclusions derive from findings, and generally apply judgement criteria agreed upon in advance. In a few instances, the evaluation team has introduced new judgement criteria or adopted a multi-criteria approach. These instances are highlighted in Part 6. The evaluation team endorses full responsibility for its conclusions.

Conclusions are generally robust, but the self-assessment of the evaluation team is that 6 conclusions out of 16 suffer from some methodological limitations. These limitations are mentioned in Part 7 and explained in the methodological appendix (Volume 2, Section 3.5). Conclusions related to the EC contribution to policy reforms are generally robust. The conclusion related to EC contribution to overall socio-economic changes is weaker, mainly because there are few recent data about poverty, and also because available impact information is poor in quantity and in quality, despite the enormous amount of works done in Tanzania.

## 5. THE TEN QUESTIONS ANSWERED

The reader is advised that most of the findings which are displayed in the following sections are also synthesised in the overall assessment (Part 6). A faster reading is therefore made possible by going to Part 6 and then by reverting to all or some of the following sections.

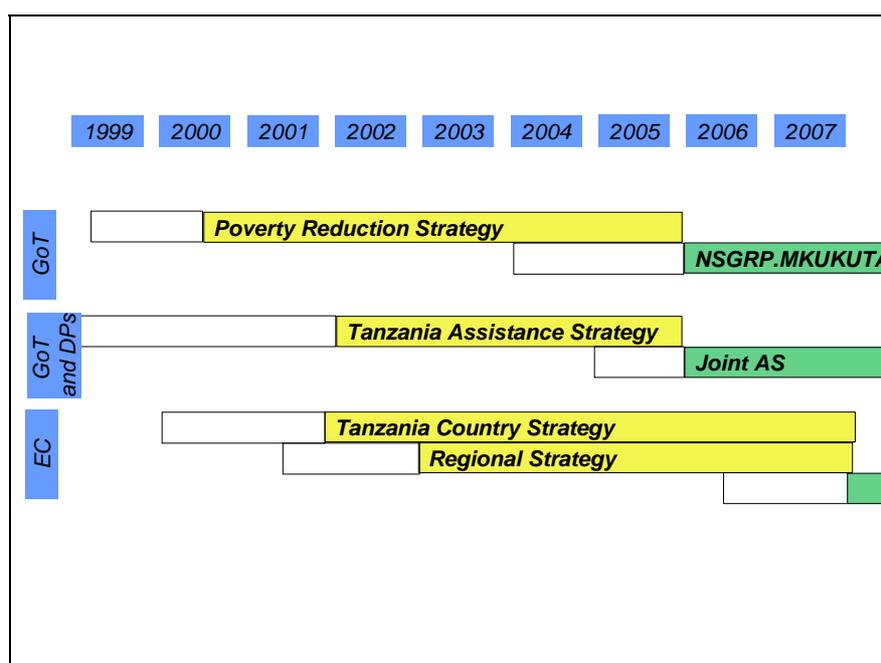
### 5.1. Coherent strategy (C)

To what extent did the design of the EC's support strategy take due account of the Tanzanian strategic priorities and of other EU policies?

#### 5.1.1. Strategy-making

When the EC started to design its country strategy paper in 2000, the Government's Poverty Reduction Strategy was about to be finalised through a process which involved wide and deep consultation with development partners and non-state actors, and which can therefore be qualified as legitimate.

Figure 2 - Parallel strategy-making processes



Dialogue between Government and development partners continued until 2001 in order to reach agreement on the Tanzania Assistance Strategy. The design of the EC strategy paralleled these two other processes. The EC strategy paper was designed jointly with the Government, with a significant input of non-state actors.

#### 5.1.2. Priority areas and sectors

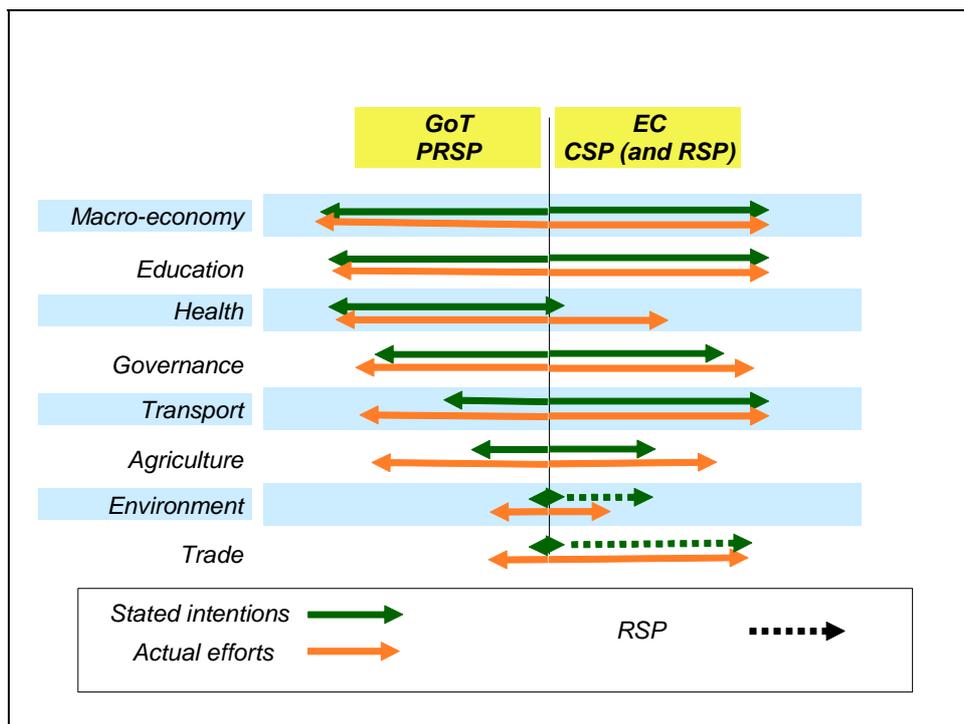
Both parallel and connected processes have ended in a strong degree of alignment of priorities per sector/area. The following figure shows the evaluation team's assessment of the level of priority per sector/area, as stated in the EC strategy paper and in the Government's poverty reduction strategy. The degree of alignment is strong in the areas of transport, governance, education and, to a lesser extent, agriculture. If the regional strategy paper (RSP) is also taken into account, it must be said that the EC also puts priority on trade and regional integration, and on environment, two areas which are not prioritised in

the Government’s strategy. Health is the main Government priority where the EC did not indicate any specific support in its CSP.

The evaluation work has included an assessment of the actual efforts on both sides over the last years. On the EC’s side, this *de facto* strategy approach builds upon actual financial support (including budget lines and the estimated share of the general budget support allocated to priority sectors, as explained in 5.2.1), plus contributions to co-ordination, policy dialogue and monitoring of performance indicators in the framework of the general budget support. The Government’s actual priorities have been assessed through a panel of experts.

When considering actual priorities, the alignment of both strategies is even better, as in the case of the health sector, for instance.

Figure 3 – Stated and *de facto* priorities per sector/area



### 5.1.3. Poverty reduction

The comparative analysis of objectives in both EC and Government strategies shows a strong alignment of objectives. The overall objective on both sides is the reduction of poverty through economic growth and social development. The introduction of poverty reduction as an overarching objective has been one of the major changes in the EC strategy between the 8th and 9th EDF cycles<sup>14</sup>. Although other minor changes have occurred in the sectors covered (e.g. water and sanitation no longer prioritised), the rest of the overall logic has remained almost unchanged.

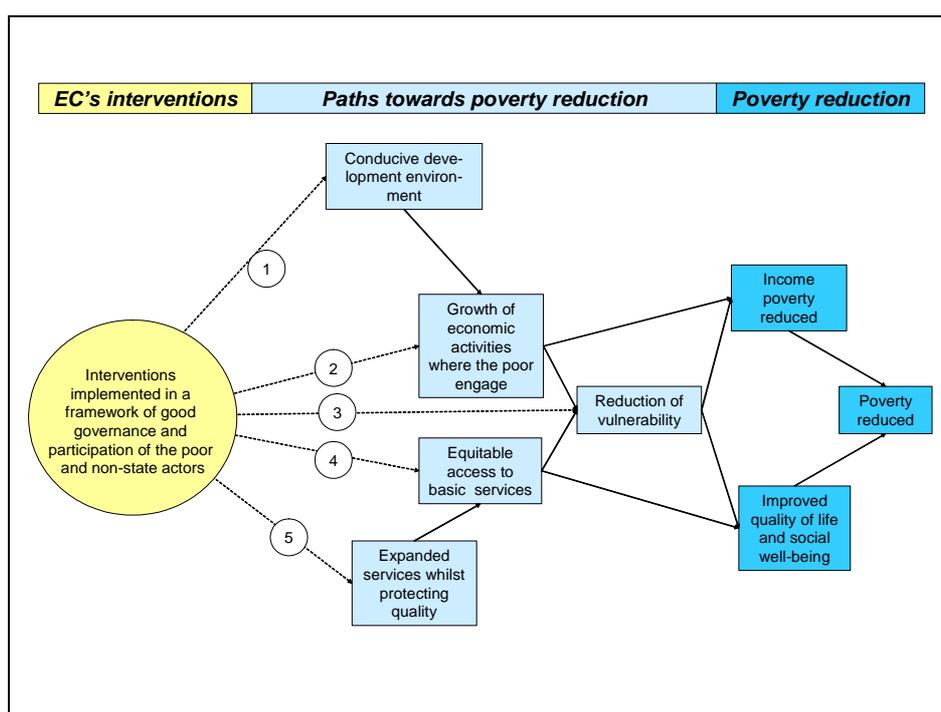
In the strategy paper, what comes the closest to a clarification of the new objective is the concept of “poverty incidence” which has been considered in order to select two focal sectors out of ten potential sectors/areas of cooperation (CSP, p.20). In fact, the concept of poverty incidence is not defined or commented in the document. The evaluation team understands that (1) poverty incidence has not been discriminating in the choice of priorities since it was assessed as “high” for all sectors/areas considered except natural resources and energy, and (2) the choice of priority sectors/areas mainly derives from the EC’s comparative advantages.

<sup>14</sup> See section 3.4 for an analysis of the logic of successive EC strategy documents (8th and 9th EDF).

Building upon the analyses reported above, the evaluation team considers that the overall objective of poverty reduction has not been clarified enough, and that there is a need for more in-depth reflection. As a first step in this direction, the 2000 Poverty Reduction Strategy Paper has been revisited. It states that poverty alleviation efforts should concentrate on (a) reducing income poverty, (b) improving human capabilities, survival and social well-being; and (c) alleviating the extreme vulnerability of the poor. The second step refers to the Government's strategy paper adopted in June 2005 (MKUKUTA). The paper defines several "clusters of poverty reduction outcomes"<sup>15</sup>, which have been reorganised<sup>16</sup> in the form of five chains of impacts called "paths towards poverty reduction"<sup>17</sup> as follows:

- Conducive development environment, i.e. human capabilities, basic infrastructure, innovation capacity, entrepreneurship, fair competition, limited red tape and barriers to trade, macro stability (p 28-30).
- Growth of economic activities where the poor engage, e.g. small-scale agriculture and rural non-farm activities, activities employing women and youths (p30)
- Reduction of vulnerability, i.e. addressing the special needs of the vulnerable groups<sup>18</sup>, providing for social security and health insurance, protecting against external shocks and disasters (p 30, 48)
- Equitable access to basic services, especially as regards the poorest districts/regions (p30)
- Expanded basic services whilst protecting quality, i.e. affordability and access to food, education, information, health, water (p31)

Figure 4 - Paths towards poverty reduction



<sup>15</sup> The Government's document uses the term 'outcome'. This report uses the term 'impact'.

<sup>16</sup> The typology covers the whole range of outcomes highlighted in the Government's document, except "governance and accountability", which are considered to be a prerequisite for all the paths towards poverty reduction, rather than a path in itself.

<sup>17</sup> The evaluation team takes full responsibility for defining and using this "five paths" typology, which is not derived from the EC's stated objectives. As a consequence, the typology has not been used for evaluating the effectiveness of EC support. The typology has been used as an analysis instrument for deriving findings (see 6.1.2).

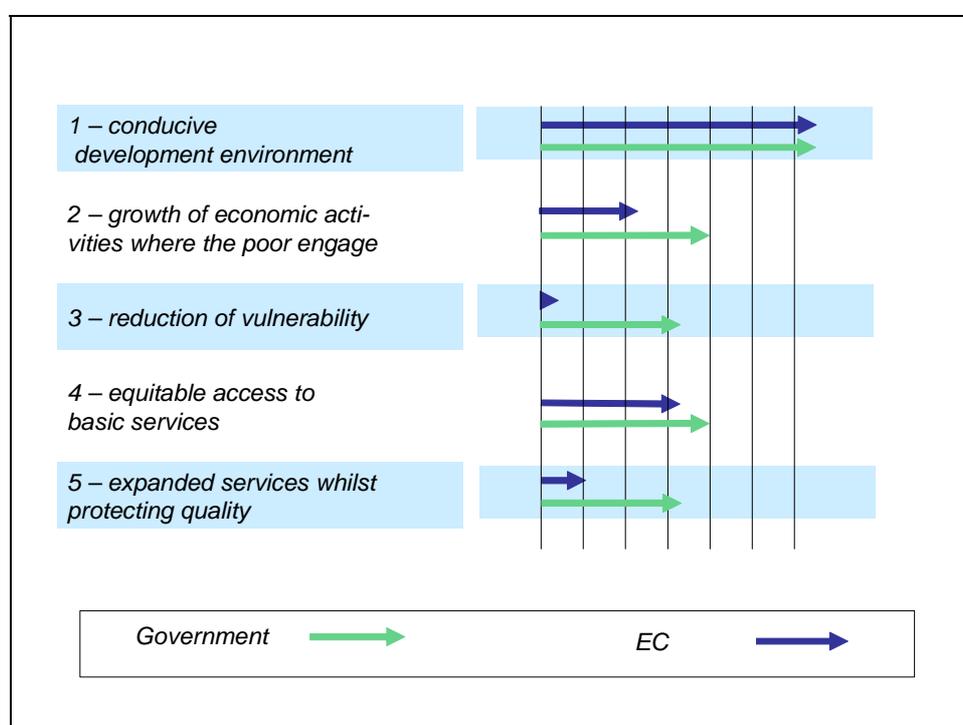
<sup>18</sup> Orphans, people living with HIV and AIDS, people with disabilities, the elderly, and those at risk of falling deeper into poverty

Impact chains are interconnected and good governance is common to the five pathways, as displayed in the figure above.

The evaluation team has used these concepts in an analysis of the portfolio of EC projects and basket funds (not including general budget support). The portfolio has been clustered into eight categories (e.g. education, HIV and health, transport and other infrastructure investments), assuming that all actions within a category have a homogeneous pattern of impacts. A typical project/programme has been selected in each category and submitted to a light study (see Volume 2) in order to assess the pattern of impacts of the project<sup>19</sup>, and hence of the category. Patterns of impacts have then been weighted in proportion of the amount of financial support committed during the period under evaluation. The analysis shows that Paths 1, 2 and 4 have been given a *de facto* priority and that Paths 3 and 5 have been given lower priority.

A panel of four Tanzanian experts has been asked to rate the Government's efforts in relation to the same five paths. Their work suggests a generally good alignment of both partners' priorities, except on Paths 3 and 5 (see supporting analyses in Volume 2).

Figure 5 – De facto priority given to poverty-reduction approaches



The above figure deserves to be commented as follows:

Path 5 (expanded services whilst protecting quality) was found to have been paid little attention in the projects/programmes analysed, and to have had less effort devoted to it by the EC than by the Government. This has much to do with the postponement of commitments in the education sector, which has a high potential for expanding basic services and which was a focal sector in EC strategy.

**Path 4 (equitable access to basic services**, hereafter called “equity”) has had much effort devoted to it on both sides. For the EC, this *de facto* priority is mainly related to the weight of financial support in the transport sector, since an improved road network considerably improves access to basic services in poor rural areas (see 5.5).

It is, however, the evaluation team's view that equity was not that high on the EC's agenda, even if it is heavily weighted in the above figure. This view builds upon the following arguments:

<sup>19</sup> It must be clear that potential impacts are discussed in this section, not actual impacts.

- Paying much attention to equity would mean that most projects or programmes in the EC portfolio would include pro-poor measures and/or policy dialogue focusing on poor groups. The following example shows that pro-poor measures may not even be sufficient to fully achieve equitable access to basic services, and that a specific effort on monitoring and/or evaluation is requested.
- Our review of monitoring and evaluation material (6.5.1) shows that equity was generally not covered. For instance, the recent evaluation of the support to primary education (PEDP) does not address the issue although available data indicate that less favoured regions may have suffered more than others from decreasing quality<sup>20</sup> (see 5.6.3).

#### Box 2 - Equitable access to basic services and pro-poor measures, an example

Together with IDA as the main lender and with ADB, the European Investment Bank has supported a water supply and sanitation project in Dar es Salaam through a EUR 35 million loan. The project aimed to institutionally restructure, physically rehabilitate/upgrade, and expand the water supply and sanitation services of Greater Dar es Salaam, and to make the provided service sustainable by fully metering and billing water consumption. The project has encountered a series of difficulties which are not addressed here, but it also provides an interesting insight into the issue of equitable access to basic services.

A widely shared view is that ‘all of Dar es Salaam is poor, so anything which helps to provide more water will automatically help the poor’. The project designers did not stick to this preconception and introduced a number of pro-poor measures intended to achieve more widespread access to piped water at a reasonable price, e.g. a 25% reduction on the rate of the first five cubic meters, a series of small community projects delegated to NGOs, and a social connection fund providing low-cost connections for households with fewer than three water points.

In September 2004, ActionAid issued a report (“Turning off the taps”)<sup>21</sup> which is highly visible on the Internet and which questions the impact of pro-poor measures on unplanned settlements where the majority of the population lives.

Moreover, the study suggests that poor people might be negatively affected. Poor people in general do not have direct access to water connections and many of them rely on neighbours with connections, or on vendors who sell water in jerry cans. It is reasonable to assume that if water becomes fully metered and charged (an objective of the project), then benevolent neighbours and water vendors will pass on the price to consumers who will have to pay more without benefiting from an improved service. According to the authors of the study, their survey occurred too early for either confirming or refuting such an assumption.

The evaluation team’s understanding is that the inclusion of pro-poor measures in the project demonstrates a concern for equitable access to basic services, but that equity is a complex issue which also calls for monitoring and/or evaluation.

Sources: EIB’s loan proposal June 2003, EIB informant and ActionAid

**Path 3 (reducing vulnerability)** has been addressed in a limited number of specific areas like HIV/AIDS and gender, which have received relatively low financial support<sup>22</sup>. By contrast, vulnerability is assessed by the expert panel as benefiting from relatively strong efforts on the Government’s side.

This imbalance is also reflected in the strategy papers. Reducing vulnerability has the status of a strategic priority in the Government’s Poverty Reduction Strategy, but the term is used only once in the EC’s strategy paper, in an incidental manner. The evaluation team has extended its analysis to synonymous terms in both documents (see Volume 2), and this analysis confirms a (slight) misalignment as regards vulnerability.

<sup>20</sup> An EC informant explains that the promotion of a sector approach to education is partly driven by a willingness to create an appropriate arena for dialogue on equity issues like access of minorities.

<sup>21</sup> The evaluation team does not consider ActionAid’s paper as impartial. The reasons why it is quoted are explained in the methodological appendix (Volume 2, Section 334)

<sup>22</sup> Emergency support to refugees is not included in this analysis.

In areas other than HIV/AIDS and gender, the evaluation team has sought evidence of whether vulnerability has been or should have been addressed by the EC. Evidence that vulnerability has been addressed has been found in one instance: the Primary Education Development Programme includes a component targeted at children with special needs, like orphans and AIDS-affected pupils (5.6.3). In contrast, an in-depth analysis of four projects in the transport and agriculture sectors shows that they do not include any specific concern for, or measure in favour of, extremely vulnerable people (5.5.3, 5.7.3). These studies also show that actual EC support is not connected to vulnerability, either positively or negatively.

Finally, the reduction of vulnerability is not an area for performance monitoring in the framework of the general budget support.

From its analysis of the previous cases, the evaluation team understands that:

- The issue of reducing vulnerability has not been significantly addressed by the EC during the evaluated period, except through its emergency support to refugees, through a few projects targeted at AIDS-affected people and women, and sometimes through specific components integrated into other projects and programmes.
- There are few direct connections between actual EC support and vulnerability, which means that there was not much room for integrating measures in favour of vulnerable people in the bulk of EC projects and programmes. In other words, the relevant approach to addressing the vulnerability issue would have been through mainstreaming the issue into existing support, but rather through specifically designed projects and programmes.

The evaluation team members arrive at these findings through their own analyses and interpretations. However, the idea of analysing the concept of poverty incidence more in-depth originates in part from a recent and widely shown film: *Darwin's Nightmare* by Hubert Sauper (Box 3).

#### Box 3 – Is EC support connected to vulnerability issues?

The EC's involvement in tackling extreme vulnerability has been questioned in the case of the newly developed fishing industry on the Tanzanian side of Lake Victoria.

This economic activity has been aided by the donor community including the EC since 1989. The EC has supported actions like: multi-country Fisheries Management Plan, building a multi-country research and management capacity, building fishing communities' capacity to co-manage fish resources, and sustainable system of sanitary control. Indirect support has also been provided, for instance through the Mwanza road project and the special programme for refugee affected areas which included the rehabilitation of the Mwanza airport track. No direct support has been provided to fish processing factories.

The EC has unquestionably contributed to a success in terms of "growth of activities where the poor engage" (second path towards poverty reduction). The 12 fish-processing factories on the Tanzanian side of Lake Victoria have created about 10,000 jobs both directly and indirectly<sup>23</sup>. The fishery has also created many ancillary jobs in the Lake region, benefiting local communities in fishery-related income-generating opportunities. It is estimated that the industry has created (directly and indirectly) livelihood opportunities for two million people in the entire Lake Zone, largely owing to the fact that the industry relies on self-employed fishers.

<sup>23</sup> This view is confirmed by the director of the film. When asked whether European consumers should boycott Tanzanian fish, he answered that "it would be counter-productive and would bring thousands of Tanzanians to unemployment" (H.Sauper, 2005).

*Box 3 continued*

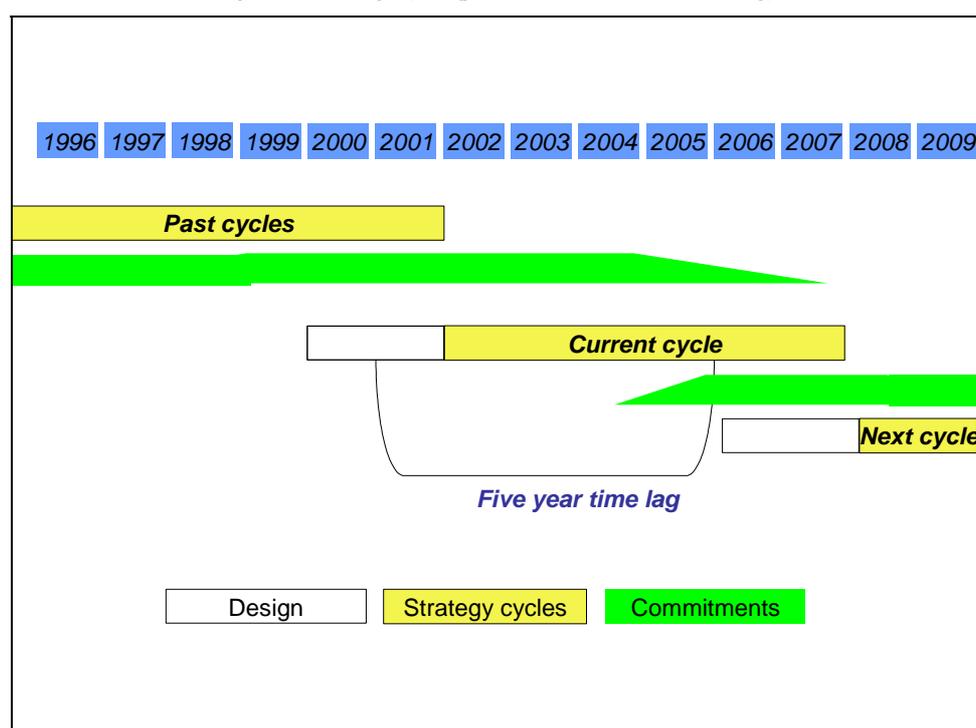
Darwin's Nightmare, a recent and widely commented film<sup>24</sup>, depicts shocking images of extreme poverty in the surroundings of the Mwanza fish-processing factory. The film suggests that there are connections between EC-supported economic development and vulnerability, a view which cannot be confirmed by evidence available to the evaluation team. Considering that Tanzania is one of the world's poorest countries, a similar picture could probably have been obtained in many other Tanzanian cities.

While being essentially a piece of art, the film has contributed to raise the evaluation team's interest on the extent to which EC support addresses the issue of extreme vulnerability (see 6.1.2, conclusion 2, and recommendation C1).

#### 5.1.4. Strategy-making process

As shown in the following figure, the main part of the funds programmed in connection with the current strategy is being committed only now, almost five years after the strategy was designed (the reasons for such delays are discussed in 6.3.3). The objectives and priorities designed in 2000 are just entering into practice, at a time when the Government has already designed its new strategy and is actively discussing it with all development partners.

Figure 6 - Lengthy implementation of the strategy



It is moreover clear that the principle of concentration has not been adhered to. As indicated in Figure 3, the focal sectors have been diluted into a variety of projects, which are highly demanding in terms of management. These include budget line-supported interventions, amounting to EUR 35 million, and support for health, to the tune of EUR 5 million a year. Support channelled through STABEX was initially intended to compensate farmers directly, but is now managed as a programme, supporting a variety of projects

<sup>24</sup> The film features one of the twelve fish-processing factories, and the Mwanza airport through which Nile perch fillets are exported worldwide. It raises many other issues that are less connected to the evaluation questions and are not mentioned in the box. The evaluation team assesses the film as providing a negatively biased view, although this neither reduces its artistic quality nor precludes its use as an input into this report. The latter point is explained in the methodological appendix (Volume 2, Section 334)

including coffee research, rural roads, agricultural survey and studies on crop boards and land. There is simply no way through which the strategy paper could have been used for integrating all EC support into a coherent framework geared to country-level priorities.

On the side of the Government, it is strongly claimed (JAS documents and interviews) that excessive transaction costs are generated by multiple strategy-making processes with multiple donors at multiple points in time.

#### 5.1.5. Alignment on current Government's priorities

The current strategy paper and the focus on key sectors may no longer be in line with the needs and priorities of Tanzania as presented in the MKUKUTA (National Strategy for Growth and Reduction of Poverty). This is due to the change in focus from priority sectors to inter-sector collaboration designed to meet the three major clusters of poverty-reduction outcomes.

The strategy is now based on three major clusters of poverty-reduction outcomes: i) growth and reduction of income poverty; ii) improvement of quality of life and social well-being; and iii) good governance. 'The PRS(P) was linked to debt relief under the enhanced High Indebted Poor Countries (HIPC) initiative. Debt relief and other resources were mainly channelled into "priority sectors" ... However, the resources were not sufficient, even for the "priority sectors" to lead to appreciable change over three years. ... For this reason, the NSGRP adopts the "outcomes-approach" which counts on the contribution of all sectors towards specific outcomes on growth, improved quality of life, good governance and equity. The approach encourages inter-sector collaboration in devising more efficient ways of achieving these outcomes.' (NSGRP p. 2).

The current CSP format and its emphasis on focal sectors no longer falls in line with that of the new Tanzanian Poverty Reduction Strategy. In broad terms, however, since the overarching objectives as contained within the NSGRP are still reduction of both income and non-income poverty, with a focus on economic and social development, the CSP is still coherent in those respects.

The Mid-Term Review of the 9<sup>th</sup> EDF, undertaken in 2004, states however that, 'With regard to the overall objectives of our cooperation with Tanzania, the choice of focal sectors in our original CSP/NIP remains valid and it is therefore proposed not to change the strategy (MTR 2004)'. This conclusion may no longer be accurate in light of the new approach taken by the Government.

#### 5.1.6. Coherence with EC policies

The CSP does state that: *Further coherence between development policy and other EC policies (notably fisheries and trade but also agriculture, environment, etc.) will be permanently assessed during project or programme identification and appraisal...* (CSP 25).

There is minimal reference to the EC's other global and regional objectives within the CSP, and no reference to the strategies which the EC intended to employ to ensure coherence. There have nevertheless been reported areas, such as fisheries, trade and phyto-sanitary, where the EC has attempted to align its support.

EC Support to refugees in Tanzania has been coherent across the various mechanisms, with the EC providing financial support via the 8<sup>th</sup> EDF, ECHO, Art.255 Lomé / 73 Cotonou and through AIDCO's Food Aid contribution to WFP for Tanzania Refugees.

The mid-term review in 2004 did not mention inconsistencies with EC policies. As highlighted in the Mid-Term Review, negotiations for a fishing agreement are ongoing, as is TA to the NAO to assist in building capacity in the area of trade.

### 5.1.7. Answering question C (Coherent strategy)

Broadly speaking, CSP priority sectors/areas were aligned by design on PRSs, and remained aligned de facto. The objectives stated by the EC in the CSP were closely aligned on Government objectives stated in the PRS.

In 2001, the EC introduced poverty reduction as a new overarching goal appended to a basically unchanged strategic approach. The contribution of EC strategy to poverty reduction has been considered (concept of “poverty incidence”), but in a superficial way.

Having revisited this issue, the evaluation team found that the EC has given a *de facto* priority to some dimensions of poverty reduction, namely “conducive economic environment”, “growth of activities where the poor engage” and “equitable access to basic services”. Low or very low priority has been given to “improving basic services” and “reducing vulnerability”<sup>25</sup>. The latter dimension has, however, been paid more attention on the Government’s side. There are indications that equity in access to basic services has not been fully mainstreamed, for instance in the areas of basic education and water supply.

In the context of Tanzania, the EC strategy-making process has failed to ensure a timely and coherent implementation. The principle of concentration has not been adhered to. In addition, the process involves transaction costs borne by the Government which has to deal with multiple donors’ strategy-making processes at multiple points in time.

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<sup>25</sup> One of the reference group members considers that only vague evidence supports the idea that low priority was given to “reducing vulnerability”. Despite this comment, the evaluation team maintains the statement on the grounds that it is backed by several sources of evidence (light studies, documentary analysis and interviews) which are admittedly weak but convergent.

## 5.2. Funding modalities and poverty reduction (P)

To what extent and how has the EC's choice of funding modalities allowed progress towards the achievement of Tanzanian Poverty Reduction Strategy objectives?

The evaluation provides evidence for comparing five funding modalities: projects funded under FED-STABEX, projects funded under budget lines, traditional basket funds, basket funds using Government management channels, and general budget support. In this section specific attention is paid to general budget support.

Untargeted sector budget support (SBS) is another modality, which has been advocated by the EC in supporting sector policy-support programmes. Contrary to traditional basket funds, SBS is fully integrated into the Government's budget and subject to a monitoring of results. This modality might be applied in Tanzania within the next years, but it was not used during the period under evaluation.

It has been suggested that basket funds could be seen as a precursor, or even a proxy of sector budget support. Admittedly, the border between sector budget support and basket funds is becoming unclear and the use of basket funds now goes well beyond what was envisaged in the "common pool funds" described in the earlier Commission guidelines. However, considering the state of practice in Tanzania during the period under evaluation, the evaluation team still thinks that evidence gathered on basket funds cannot be used draw conclusions about sector budget support.

### 5.2.1. General budget support

Donors initiated budget support to Tanzania through the Multilateral Debt Fund established in the late 1990s to help the Government meet its debt service obligations to multilateral institutions. When Tanzania reached the Decision Point for debt relief under the Highly Indebted Poor Countries (HIPC) initiative in 2000, the reason for the MDF's existence disappeared. Contributing MDF donors then created the PRBS (Poverty Reduction Budget Support) facility to continue providing the Government with flexible assistance in support of its Poverty Reduction Strategy. Since 2003/04 the World Bank Poverty Reduction Support Credit (PRSC) has been adding to the volume of resources provided to Tanzania in the form of budget support.

About one-third of foreign aid to Tanzania is currently provided in the form of budget support, against 45 percent in the form of project aid and 20 percent as basket funding.

Table 6 - Percentage of aid flow, excluding debt relief, by modality

Type	2002/03	2003/04	2004/05
General budget support	30%	38%	34%
Basket Funding	16%	18%	21%
Project funding	54%	44%	45%

Source: URT (2004a)

Currently 13 donors contribute to the PRBS. They are the African Development Bank, Canada, Denmark, the EC, Finland, Germany, Ireland, Japan, the Netherlands, Norway, Sweden, Switzerland, and the UK. The presence in this list of Canada and Japan is noteworthy because it is quite unusual for these two countries to provide budget support.

The total amount of funds provided in the form of budget support has steeply increased since the late 1990s.

Table 7 - Disbursements of General Budget Support (in million USD)

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05*
MDF	85.4	88.1	27.7				
PRBS			87.5	138.4	199.4	219.2	
PRSC						139.0	
Total	85.4	88.1	115.2	138.4	199.4	358.2	394.2

The European Commission is a major contributor to the PRBS. The National Indicative Programme 2001-2007 planned to allocate to GBS EUR 94.6 million out of a total of EUR 290.0 million. Actual allocations exceeded these figures since the Commission's PRBS02 programme covering the period 2003-2006 was allocated EUR 114.0 million. Disbursements are currently in a bracket EUR 31-32 million /year.

### **5.2.2. Comparing modalities in terms of transaction costs**

According to Frantz (2004), who interviewed a sample of donor representatives in Tanzania, "most PRBS/PRSC donors do not believe that transaction costs have fallen, neither for the Government nor for the donors. Some even think that transaction costs may have risen in the short term. Most are nevertheless hopeful that they will fall over the medium-term as the various processes surrounding the provision of general budget support improve".

The policy dialogue involved in GBS and the monitoring of the PRS implementation implies the involvement of Government and of Development Partners in a very large number of working groups and forums. Furthermore, as noted above, GBS accounts for only one third of total foreign aid to Tanzania. This means that transaction costs involved in other aid modalities remain present.

The question raised by Frantz is whether transaction costs induced by an intense policy dialogue between the Government and the donor community, and a close monitoring of policy implementation and outcomes, can be put on the same footing as the transactions costs linked to multiple negotiations carried out separately with the various donors or by the utilisation of different procedures by different donors. Frantz suggests differentiating useful transaction costs, which contribute to enhance the quality of the strategy and the effectiveness of its implementation, and useless transaction costs.

### **5.2.3. Comparing modalities in terms of predictability**

Predictability means that the Government is properly and timely informed of donors' commitments, and is able to include foreign aid in the budget. In addition, disbursements are consistent with commitments, which ensures that funds committed in the budget are not unavailable.

Since the approval of the country strategy paper, general budget support is the only modality which has ensured predictability of EC support in Tanzania (see 6.3.3). According to the Government (URT, 2003), "the performance of aid disbursements as compared to commitments has improved, however, most significantly for budget support and basket funds. Project aid remains a problem in this area of aid coordination". Furthermore, the Government is asking donors to make commitments for the three-year planning period of the MTEF. While this is possible, at least theoretically, with GBS, it is hardly conceivable for project aid.

An example of poor predictability is the basket fund for education, as reflected in the 2004 PEDP review.

## Box 4 - An example of predictability problems

According to a recent review of the Primary Education Development Programme, the arrangement has two phases of releasing funding into the government financial system. The first involves individual donors releasing funds into a holding account on the basis of conditions stipulated in the MoU and individual cooperation agreements with the government of Tanzania. The second phase involves the releasing of funds from the holding account into the treasury, after all the partners have agreed that the MoU conditions – audits, reports and so on described above - have been met.

There are uncertainties on both issues of releasing of funds to the holding account and clearing of funds to the exchequer account. This has been observed in the years 2002/03 and the year 2003/04. Apart from there being no regular release of funds on a quarterly basis, the release of available funds did not match quarterly needs. In the past there has been no disbursement for some quarters due to poor audit reports. The release of funds to the exchequer bears little relation to how much funding there is in the holding account. When more is approved or endorsed than is actually in the account, it adds to frustration on the part of government, for being expected to bear heavy transaction costs for insufficient benefit. Due to the unpredictability of funding flows, irregular timing of disbursements and uncertainties over the levels of funding, schools, teachers' colleges and Council officials are asking why they should plan when they have no control over these areas.

In this example, the basket fund modality departs from a "classic" case of common pool funding, and includes some features of a sector budget support. The example shows, however, that several steps are still missing for achieving predictability<sup>26</sup>.

#### 5.2.4. Comparing modalities in terms of implementation mechanisms

According to the recent evaluation of general budget support in Tanzania, this modality has strengthened Government ownership and Government accountability by using joint monitoring of indicators and national accounting and audit functions. GBS has promoted a coherent planning process, consolidated the resource envelope and diminished the distinction between recurrent and development finance, together with curtailing line ministry access to "off-budget" finance.

Projects are generally not good in any of such areas. A special case is that of large infrastructure projects which have been included in a planning exercise involving all donors at country level. Budget line projects are also specific. Typically, they fund projects proposed by non-governmental bodies, and selected through calls for proposals covering many countries. They have their own programming cycles. They may include a consultation or involvement of the Government but this is far from systematic. In the course of this evaluation, a Government representative complained of not being informed about budget line projects.

Funds channelled through budget support are very much in the hands of the Government. Civil society tends to be less involved in the framework of budget support in comparison to other modalities.

For lack of evidence, the evaluation team has not ranked modalities against private sector involvement and local ownership. All projects investigated in detail are very good in this respect, but general budget support may also perform well for two reasons: private sector stakeholders have played a key role in designing the poverty reduction strategy, and decentralisation is (slowly) progressing.

In the framework of general budget support, funds are channelled through the Tanzanian public service, and partly through Tanzanian-based public procurement processes, although expenditures remain under donors' control with other funding modalities. The difference in corruption levels between both channels is made clear by all available indicators, which means that general budget support is the modality involving the highest leakage risks<sup>27</sup>.

<sup>26</sup> The EC's current approach to education support is taking these steps.

<sup>27</sup> The recent evaluation of the general budget support concludes differently on the basis that "in the context of Tanzania, 14 development partners have placed their trust in the Tanzanian public finance management system". This reasoning has not been retained in this report which has benefited from more recent factual evidence.

The following figure summarises the comparison of funding modalities as regards transaction costs and implementation aspects. For instance, GBS is the best modality for country ownership, followed by basket funds, EDF projects, and Budget line projects.

Figure 7 - Funding modalities and implementation

	<b>Projects EDF STABEX</b>	<b>Projects Budget lines</b>	<b>Basket managed /donors</b>	<b>Basket managed /Govt</b>	<b>GBS</b>
<i>Transaction costs</i>	=	/	=	=	=
<i>Predictability</i>	=	=	=	=	<b>1</b>
<i>Flexibility</i>	=	=	=	(2)	(1)
<i>Leakage risks</i>	=	=	=	<b>4</b>	<b>4</b>
<i>Capacity building (Govt)</i>	(4)	(5)	(3)	(2)	<b>1</b>
<i>Govt ownership</i>	(4)	<b>5</b>	(3)	(2)	<b>1</b>
<i>Democratic accountability</i>	(4)	(5)	(3)	(2)	<b>1</b>
<i>Responsiveness/civil society</i>	(1)	(1)	(3)	(4)	<b>5</b>
<i>Private sector involvement</i>	=	=	=	=	=
<i>Local ownership</i>	=	=	=	=	=

<b>1</b>	Evidence based ranking	(1)	Assumption	=	No best modality
				/	Not relevant

### 5.2.5. Comparing modalities in terms of progress-related approach

Financial support is connected to progress of policy reforms in two distinct ways:

- An “all-or-nothing” approach is applied more or less in the case of sector policy reforms involving projects and basket funds. For instance, it has been highly effective in the case of the 1998 road sector reform (5.5), although it has involved a funding gap over a period of more than one year. In theory, the “all-or-nothing” approach loses its effectiveness as soon as the funds are committed. This is what happened in practice when Tanroads was not given the level of independence initially planned.
- A more flexible approach associated with general budget support, called the “variable tranche” mechanism, was introduced in the fiscal year 2004/2005. Prior to the introduction of this mechanism, disbursements from committed funds had to wait until planned progress was achieved by the Government. The variable tranche amounts to about one third of the committed funds and actual disbursements depend partly on progress made in public finance management and partly on achievement of performance targets in social sectors. Up to now, disbursements have been limited to 75-80% of commitments under the variable tranche.

## Box 5- The "variable tranche" mechanism

In 2004/05 the EC contribution included a fixed tranche of EUR 24 million and a variable tranche of EUR 10 million contingent on the effective implementation of reform measures in the field of public finance management. In the variable tranche, actual disbursements amounted to EUR 7.5 million. Out of the 2.5 million Euros not disbursed, 0.5 million were held back due to lack of progress in fighting corruption; 1 million due to unsatisfactory performance in PFM; and 1 million because the implementation of the budget deviated from priorities of the PRS.

In 2005/06 the EC contribution includes a fixed tranche of EUR 22 million, a variable tranche of EUR 6 million contingent on the continuation of PFM reform, and another variable tranche of EUR 16 million (8 million for education and another 8 million for health) out of which actual disbursements will depend on the achievement of performance targets in social sectors. Out of the EUR 6 million PFM-related tranche, EUR 4.8 million have actually been disbursed. The Commission still has reservations on the completeness of the PFM reform process (which is seen as crucial to sustainability of the financing instrument), on corruption and on delays in external auditing, which is a new factor introduced. Out of the performance indicators-related tranche of EUR 8 million for education, EUR 5.2 million have actually been disbursed. Whereas performance in education has been positively assessed despite issues relating to gender equality and drop out, the lack of monitoring data in health has not allowed assessment of whether the targets agreed that this sector have been reached.

Both approaches are compared in the following figure. This evaluation shows evidence that the "all-or-nothing" approach (used in association with project and basket fund modalities) may create a strong financial incentive for policy reform, albeit limited in time (case of the road sector). There is, however, no indication of such a strong incentive on the side of general budget support (no progress on the corruption issue after two years of reduced disbursements).

The "all-or-nothing" approach creates severe unpredictability, an inconvenience that has been considerably scaled down in the first years of experience with the variable tranche.

Figure 8 - Two approaches to progress-related financial support

	<b>All-or-nothing approach</b>	<b>Flexible approach</b>
<i>Financial incentive</i>	Strong	Weak
<i>Duration of incentive</i>	Limited	Sustainable
<i>Focus on</i>	Implementation of reforms	Impacts
<i>Government space for policy making</i>	Narrow	Wide
<i>Predictability</i>	Low	High
<i>Funding gaps</i>	Large	Limited
<i>Assessed in this evaluation</i>	Yes	Not yet

### 5.2.6. Comparing modalities in terms of contribution to poverty reduction

Increasing revenue provided to the budget by donors has not induced the Tanzanian government to relax its efforts to increase domestic revenue. Between 1999/00 and 2004/05 tax revenue increased from 12.9 percent to 14.0 percent of GDP. According to budget documents for 2005/06, it should continue to grow in the coming years, to reach 15.7 percent of GDP in 2007/08. This achievement results not from an increase in key tax rates but from a reform of the tax system and from a more effective collection of taxes by the Tanzanian Revenue Authority. However, it may be noted that at the end of the 1990s, the revenue-GDP ratio was low by regional standards (IMF 2005 a and b).

Between 1999/00 and 2004/05 an increasing share of public expenditure was directed towards the priority sectors identified in the Poverty Reduction Strategy. Together with a steep growth of public expenditure, this resulted in a rapid increase of public expenditure in these sectors, in relation to GDP.

Table 8 - Expenditure in PRS priority sectors

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
In billion TSH	418.6	499.7	761.9	973.7	1,113.5	1,486.3
As a percentage of total expenditure	35.8%	39.3%	52.1%	48.9%	44.6%	46.3%
As a percentage of GDP	6.1%	6.5%	8.8%	9.7%	11.1%	14.8%

Source: IMF (2005a)

It may, however, be noted that the percentage of priority sectors in total expenditures declined in 2002/03 and even more so in 2003/04. This was a major issue of the government-donor 2003 budget review, which is said to have been difficult and somewhat contentious (Frantz, 2004).

The budget for 2005/06 plans a further increase to 54 percent of the share of budget expenditures targeting PRS priority sectors. However, this figure cannot be compared with the previous one since the scope of PRS priority sectors has been significantly enlarged.

By definition, EC funds channelled through general budget support follow the Government's poverty reduction pattern. In contrast, the analysis of the portfolio of EC projects and basket funds shows some misalignment in terms of the poverty reduction pattern (see 5.1.3).

### 5.2.7. Answering question P (Funding modalities and poverty reduction)

In the current Tanzanian context, general budget support is particularly good at improving predictability and country ownership, and promoting democratic accountability. On the contrary, projects and basket funds are better at involving civil society, and at preventing financial leakages. In the framework of general budget support, funds are channelled through the Tanzanian public service and public procurement processes, which suffer from higher than average corruption levels.

Funds channelled through general budget support have followed a poverty reduction pattern, which is better aligned on Government's priorities.

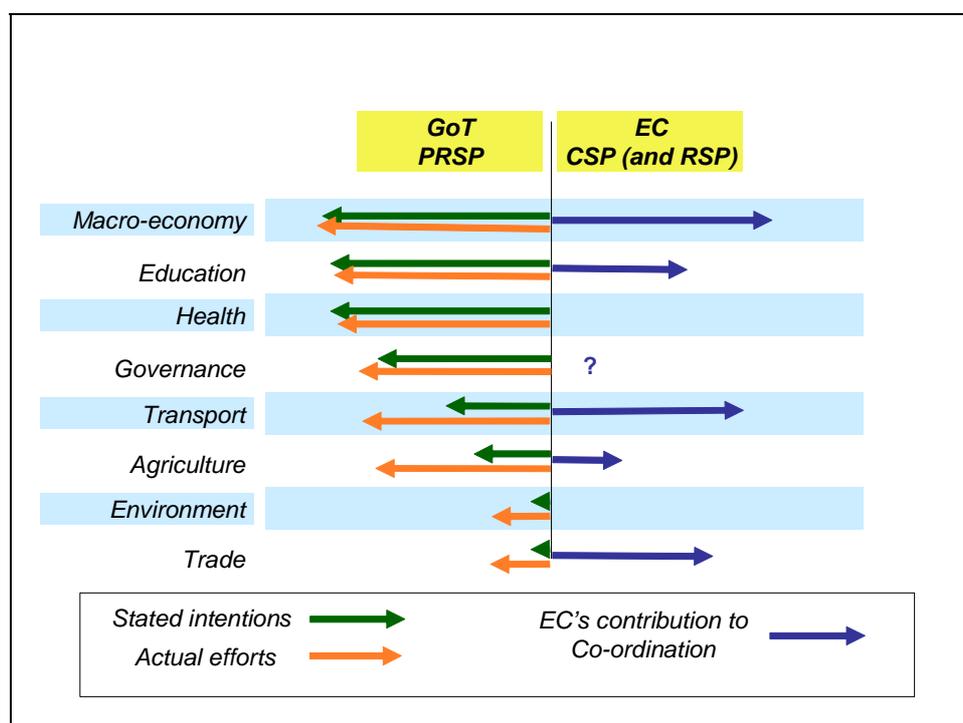
### 5.3. Development partners' co-ordination and complementarity (D)

To what extent has the EC contributed to harmonised dialogue with the Tanzanian Government and all development partners that effectively and efficiently address Tanzanian priorities and strategies?

#### 5.3.1. Co-ordination

The Government and development partners co-ordinate through a series of work groups in the framework of the Tanzania Assistance Strategy (see 2.6). During 2003, development partners in Tanzania reorganised themselves into the Development Partners Group (DPG), with work groups mirroring those established in the framework of TAS. EU MS Heads of Mission meet monthly.

Figure 9 - EC's contribution to co-ordination assessed by partners



The EC has contributed to a large extent towards this harmonised dialogue with the Tanzanian Government and all development partners. In the past, the EC's main contributions to co-ordination have focused on transport and education. At present, they focus on poverty reduction budget support, as well as a governance and reform programme.

As stated in Figure 9, the EC's contribution is acknowledged by other Governments and other development partners (source: interviews).

Despite the lead that the EC has taken in attempting to develop a sector strategy, the evaluation of EU support to PEDP points to a lack of effectiveness and efficiency in actually achieving harmonised dialogue within the Education Sector. This is due to the limited extent to which the Government allowed the pooled partners to be effective and efficient. Harmonised dialogue with Government in the transport sector also has not yet been achieved, due to delays and difficulties with the reform of the sector.

During the last year consultations and discussions between Government and Development Partners have been centred on the successor to the TAS. The new assistance strategy, in its final stages of development, is known as the JAS (Joint Assistance Strategy). The JAS is expected to 'align all participating donor requirements, practices and processes for preparing, delivering and monitoring aid to a single country assistance strategy, and hence does away with each donor having their own strategy ... the JAS would detail

how technical and financial resources of Development Partners can collectively support the Tanzanian National Strategy for Growth and Reduction of Poverty (NSGRP) ... This would further harmonise and align donor support with country priorities, systems and processes and thereby enhance development partnership and country ownership, reduce transaction costs and raise aid effectiveness' (JAS Concept Paper 31/01/05).

### 5.3.2. Complementarity and competitive advantages

**Road Transport:** Along with the World Bank, the EC has for many years been at the forefront of donor support for road transport to Tanzania, in terms of its financial allocations. The EC is currently taking the lead in assisting the Government with a) assessing whether or not a sector strategy is possible and feasible, and b) guidance to the Government for meeting the underlying conditions required for implementation of a sector budget support. EC is recognised as having particular expertise in the area of road construction and maintenance, but less so in policy or management (Delegation informants).

**Education:** Over the period under review, the EC has been complementing other donors' support for education through a basket fund for the Government Primary Education Support Programme (PEDP)<sup>28</sup>. Although no longer the formal leader of the donors' sub-group, the EC is still taking the lead in the formulation of sector budget support. It was able to secure a leading position among donors, recognised by government as well, as a result of the decision to dedicate an experienced and appropriately qualified project officer to the sector. This comparative advantage was significant especially in relation to the public financing and decentralisation issues which are critical to service delivery.

**Macro/Budget Support:** This area has been reported to have had the most success in terms of donor coordination and harmonisation. Other development partners view the EC as a leading and important partner in this area.

**Governance:** In terms of actual EC interventions in support of good governance, the EC has mainly been providing technical assistance to the Public Finance Management Programme and to the Prevention of Corruption Bureau, as well as support to NSAs via the micro-projects programmes. Although financial allocations to governance account for about 2% of total EC assistance to Tanzania, the EC is now the lead partner in the sector and is the chair of the Governance Working Group. It has not yet been established whether the EC is seen to have a comparative advantage in this area.

**Trade:** The EC's interventions in trade have been limited to date, in terms of its financial allocations and project or programme support. The primary intervention has been centred on the provision of technical assistance to strengthen the Government's capacity in Doha negotiations, EPAs and the establishment of a trade policy. The EC has a mandate to lead trade negotiations on behalf of the Member States. As such, the Delegation wishes to build up its role in ensuring that trade policy issues are fully reflected in dialogue between development partners and government.

**Agriculture/Rural Development:** The EC supports agriculture and rural development through the Stabex Fund and through some individual budget line projects. It has played a proactive role in promoting a sector strategy but agriculture is not identified to date as an area for comparative advantage.

**Health:** Some support has been provided to this sector both directly through budget lines and indirectly through general budget support. Health is heavily supported by a number of external partners, which justifies that no priority was given to this sector in the EC strategy.

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<sup>28</sup> Nearly 70% of EC's financial assistance to Education has been provided to the basket fund.

### 5.3.3. Answering question D (Partners' co-ordination and complementarity)

The EC has contributed to a large extent towards harmonised dialogue with the Tanzanian Government and all development partners. The lead that it has, and is continuing to take in the various working groups and other mechanisms for dialogue with the Government, shows a strong commitment to supporting the Tanzanian approach to coordination.

EC contributions in the harmonised dialogue have been directed towards sector strategies and sector budget support. This applies to the road and education sectors mainly, but also to agriculture and trade.

EC co-ordination efforts are generally in line with the Government's priority areas/sectors.

#### 5.4. **Conditions of success (S)**

Considering reputedly successful actions in various supported areas, what impacts have been observed, how have these impacts been achieved, what were the conditions of success, and to what extent are the lessons transferable?

The evaluation team suggested addressing these questions in order to capitalise on available impact information pertaining to EC support.

##### 5.4.1. **Availability of impact information**

The inventory of the interventions covered by this evaluation has been completed by a review of impact information connected to EC support. Particular attention has been paid to:

- ROM (Result Oriented Monitoring) reports (7% of the support has been covered in financial terms)
- Evaluation reports<sup>29</sup> (19% of the support has been covered in financial terms<sup>30</sup>).

An analysis of the quality of information shows that:

- ROM reports include a systematic rating of impact on an “a,b,c,d” scale. Impacts are commented in a typically 10-line text. Impact information is not connected to field-level inquiry, except short visits, and does not involve a systematic cause-and-effect analysis<sup>31</sup>. Impact information is not aligned on the Government’s poverty reduction objectives, except incidentally.
- Some evaluation reports include impact-related conclusions while others do not (case of the recent evaluation of the education basket fund which did not investigate impacts). When included in evaluation reports, impacts are most often extrapolated from an observation of direct short-term effects on end users, rather than being subject to an adequate observation in the field and a contribution analysis. The connection of available impact information to Government’s poverty reduction objectives is good enough.

Considering the very limited amount of available impact information, the evaluation team opted rather for a cross-section analysis of the four projects which were investigated in greater depth. All four projects achieved impressive impacts and therefore lend themselves to an analysis of the conditions of success.

##### 5.4.2. **Factors explaining success.**

Successful achievements<sup>32</sup> of intended impacts have been observed in the following areas (detailed data in the attached CD ROM):

- The Mwanza roads project considerably eased the connections to the airport, which in turn facilitated access to international markets and thereof economic development, to the extent that the impact is visible in export statistics. Regional and local connections were also greatly improved, with benefits for internal trade, access to refugee areas, and access to basic services.

<sup>29</sup> Including the joint evaluation of general budget support.

<sup>30</sup> Since some actions have been subject to both ROM and evaluation, it can be said that 21% of the overall financial support has been either monitored for results or evaluated.

<sup>31</sup> Despite the quoted limitations, the Result Oriented Monitoring system is seen as useful by the Delegation, especially in relation to projects. ROM reports have also been used in this evaluation when possible, for instance as a basis for the light studies quoted in 5.1.3 (see Volume 2 Section 73).

<sup>32</sup> The reader needs to know that the four projects were selected with a deliberate bias towards effectiveness. They therefore provide a good opportunity to reflect on success factors. They may give an over-optimistic view of the success of EC support in Tanzania.

- The RUSIRM project (rehabilitation of feeder and local roads) has impressive records in terms of farmers' access to regional and international buyers, and even more so in terms of equitable access to basic services (see Box 6)
- The Tanzania Coffee Research Institute (TACRI) project has allowed the development of five improved coffee varieties, which have high yields and are disease resistant and labour saving. Coffee production by small beneficiary farmers has increased from an average of 0.5 kg to 2 kg per coffee tree. The quality of coffee has also increased, as reflected by better prices paid to farmers.
- The support to the Tanzania Farmers Organisation (MVIWATA) has facilitated access to credit facilities for a large number of farmers. Loan facilities have enabled a number of participants to invest not only in their farms but also in setting up other businesses. Aside from using the credit and loan facilities for investment, members are also able to borrow money in times of ill-health and to pay for their children's schooling. Capacity building initiatives have furthermore enabled farmers to use more efficient farming methods and to develop crop storage practices, which has sometimes resulted in more than doubling productivity.

The evaluation team's analysis of these successes show that there are actual or potential impacts at national level which are explained as follows:

- One of them (Mwanza roads project) has removed key bottlenecks
- Another one (e.g. feeder and local roads project, see Box 6) was very carefully designed in order to maximise local and regional impacts, and offered a prospect of learning lessons which could make (but have not yet made) a breakthrough at national level.

As regards impacts at local/regional level, the following factors have played an influential role in facilitating (and sometimes limiting) impacts. Although not surprising, the lessons learnt are clear and important. Assuming that projects are well designed and properly managed, they achieve successful impacts when they are:

- Integrated into markets: positive evidence in four projects
- Private-sector led or private-sector friendly: positive evidence in RUSIRM, TACRI and MVIWATA
- Locally owned: positive evidence in four projects
- Designed to ensure sustainability: positive evidence in four projects
- Launched in the framework of an adequate sector policy: evidence from RUSIRM and TACRI projects which entailed impressive impacts, albeit with limitations due to the fact that (1) the road sector policy does not yet fully secure maintenance (Box 6) and (2) agricultural projects are not yet integrated into a rural development approach (Box 7).

#### 5.4.3. Answering question S (Conditions of success)

It is difficult to credibly trace the macro-level impact of individual EC projects, except large infrastructure investments when they have removed key bottlenecks and innovative projects when the promotion of lessons learnt is part of the design.

Micro-level impacts are conditioned to market integration, private-sector friendly approaches, local ownership, and sustainability oriented design.

More generally, links have been observed between the success (or limited success) of projects and the adequacy (or inadequacy) of related sector policies.

## 5.5. Efficient transport services (T)

*To what extent has the EC support in the road sector contributed to Tanzania's goal to establish an affordable and sustainable road transport infrastructure and efficient services for the benefit of the Tanzanian economy and people?*

### 5.5.1. Policy reforms and dialogue

Along with the World Bank, the EC has for many years been at the forefront of donor support for road transport to Tanzania, in terms of its financial allocations. The other main donors are DANIDA, the African Development Bank (ADB), NORAD and JICA.

Tanzania's road network was and still is poor by all standards, despite major efforts undertaken during the 1990s to rehabilitate and maintain it. A survey conducted in 2000 showed that only 16% of the entire road network was in a good condition. The situation was better for trunk and regional roads (30% good) and for paved trunk roads (60% good).

It is claimed that inadequate funds and weak institutional structures have been the main contributory factors to the deterioration of the road network, which in turn has become a major hindrance to economic growth. The government, with the assistance of donors, has therefore taken steps to address these issues by attempting to institute major reforms in the management and financing of road maintenance in Tanzania. The establishment of TANROADS and the Road Fund have been a significant step towards a stronger road transport sector.

This major reform owes a lot to policy dialogue and technical assistance, but also to the fact that all donors have consistently related their support to progress in policy reforms. Major EC-supported road investments under the 7<sup>th</sup> and 8<sup>th</sup> EDF were delayed until the first package of reforms were passed. This is a typical success story of relating financial support and progress towards sector policy reforms. However, the success has been obtained at a high cost in the sense that there have been considerable delays in support from the 8<sup>th</sup> EDF.

Maintenance of the rehabilitated roads is now more timely. Between 2000 and 2004, the percentage of good trunk and regional roads had increased from 30% to 41%. However, it is questionable whether the Road Fund and TANROADS have the financial capacity to continue adequately maintaining the road networks. The monitoring report of one of the EC -supported projects states that "there is no adequate guarantee at present that the required funding will be available to ensure continuity and future viability of the road maintenance programme".

Tanzania is still lacking a formal sector strategy. The EC has provided assistance in the form of a workshop attended by major Tanzanian institutions in the sector, in order to assess the pros and cons of a sector strategy and the steps towards building a robust Sector Programme. At the Government's request, the road sector donor group of which the EC is the chair has recently (May 2005) put together a proposal for the reform of TANROADS into a completely autonomous body, something which was considered in the initial reform design but was not implemented.

According to an EC officer, there can be no doubt that running a programme of approximately EUR 215 million in grants will continue to give the EC an influence in the policy dialogue that will eventually make a difference in terms of policy reforms. However the evaluation team understands that the reforms of the late 90's have been obtained at the price of a significant funding gap, something which could not be repeated in the following years, which means that the capacity of EC and other donors to promote policy reforms has been limited during several years.

### 5.5.2. EC support

The EC has typically provided project support to construction and maintenance and some institutional support via technical assistance to both TANRoads and the Road Fund.

The NIP of the 8<sup>th</sup> EDF allocated approximately 50% of the total NIP budget to the transport sector. There are four major activities which together account for 89% of the committed funds. These are:

- Ruvuma & Southern Iringa Road Maintenance (RUSIRM) Project under the 7<sup>th</sup> EDF. The project started in 2000/2001, and is due to end in December 2005
- Rehabilitation of Mwanza Roads under the 8<sup>th</sup> EDF. The project was due to start in 1999, but was delayed by slow mobilization of the contractor for the first component. The component is now nearing completion.
- Upgrading of the Mwanza border-Tinde and Nzega-Isaka Roads, under the 8<sup>th</sup> EDF. The tender process for these works was substantially delayed by the cancellation of the initial tenders of the two lots so that work did not commence until 2004. Project completion is therefore expected in 2006/2007.
- Morogoro – Dodoma road rehabilitation, under the 8<sup>th</sup> EDF. The project launch was delayed by the necessity to amend the incomplete lot 1 design. The project started in 2004 and is expected to continue until 2006.

The EC offered to finance the Dodoma-Singida segment of the central corridor from the EDF 9. However, for political reasons the Government wanted to have the project completed rapidly and was unable to accept the EC offer, fearing that the mobilisation of EC resources would be too slow. Instead, it decided to finance this segment from its own budget.

### 5.5.3. Contribution to efficient transport services

From evaluation reports and focus group discussions on projects that are close to completion, the following benefits have been reported:

- The improvements in the RUSIRM road network have benefited local producers and internal and external trade through reduced transportation costs, which together with increased access to markets have translated into higher incomes. Access to basic services and particularly health has also improved, along with the quality of such services. As a result of increased economic activities owing to improved road networks, employment and employment opportunities have also increased in rural areas. This includes increased capacity to attract qualified staff such as teachers, nurses and rural medical assistants. (see Box 6)
- The Mwanza airport road, which was a nightmare for motorists, is now a 'joy to drive on'. A trip from the airport to the city centre that used to take up to 40 minutes now takes less than 15 minutes. Taxi fares consequently dropped from Tsh. 10,000/= to Tsh. 5,000/= after the rehabilitation.

The RUSIRM project put promotion of local know-how high on its agenda. Although Technical Assistance was assigned to the RMO's office to provide training on the job, the project was managed through TANROADS and executed by local contractors and consultants. The use of local materials, including wood stave culvers, was also encouraged. For other large roads projects, promotion of local know-how was reported to be limited because international contractors and consultants executed the projects.

In the evaluation team's interviews, sustainability has been reported to have been either facilitated or impeded by factors like (a) progress or back-tracking on the reforms; (b) channelling of funds through nationally established structures; and (c) decisions made without undue political interference.

#### 5.5.4. Question T answered (Efficient transport services)

EC support to the transport sector during the period 2000–2005 has addressed backlog maintenance and rehabilitation of both the trunk and regional road networks serving areas of high economic potential.

This evaluation has identified impressive impacts of road investments in terms of poverty reduction, especially through “equitable access to basic services”. Individual road projects are, however, insufficient for achieving such impacts, which stem only from a well-maintained road network connecting trunk, feeder and local roads.

The EC has successfully contributed to promote key policy reforms in the late 90s, although at a high cost in terms of delaying the financial support.

In the recent years, the EC has played and continues to play a leading role in promoting policy reforms that are still badly needed, especially in terms of securing maintenance. However, there has been slower progress towards a sector strategy.

## Box 6 - Impacts of an exemplary road project

An EC project has supported the rehabilitation of feeder and local roads in the South-West of Tanzania. This cleverly designed and effectively implemented project ended in an impressive series of impacts, which have been identified and confirmed through a workshop attended by lay beneficiaries, in the framework of this evaluation.

Access of the rural population to health services has been improved. In three typical cases travel time to health centres has been reduced from 10 hours to 3 hours and the cost of journeys has been reduced by 40%. Eleven new dispensaries have opened. Access to villages by health workers has also increased, owing to both road improvements and provision of bicycles. Medical institutions have also been able to improve provision of health-related information such as information relating to safe childbirth.

Teachers are now able to travel to town more easily, for instance to follow up their salary issues. Government officials highlighted their easier access to rural schools, with examples of the journeys taking 2 hours instead of 8 and costing 40% less.

Government officials are now able to make more frequent visits to rural areas. For example, the Regional Commissioner recently visited a remote village to talk to the villagers, something which would have been difficult to accomplish in the past due to poor roads. Three non-state organisations are recorded as having been able to expand services to more villages and to make more frequent visits.

Farmers have access to regional marketplaces where competition among buyers is lively, instead of depending from just one cooperative buyer. Tobacco, coffee and paprika can now be transported more easily to the closest large city where international buyers are located. Farmers are also more able to use facilities only available in town, such as micro-finance institutions.

The project is said to have encouraged migration to the town, resulting in shortages of employment. The increased mobility of the population was identified as having the potential to increase transmission of HIV. The project included some aspects of HIV/AIDS education for the community through workshops and meetings. HIV is now a standard agenda item at all official meetings.

There has been an increase in banditry in the some areas, which has resulted in some busses being given a police escort.

The EC has undertaken a specific evaluation of this highly successful project, partly in order to validate two innovations that were featured in the project design, i.e. use of local material and local know-how for the works.

Finally, it must be mentioned that the project could not be successful on its own. Sustainable maintenance of upgraded roads is (almost) secured as a consequence of the recent reform of the road sector. Moreover, the region was already served by an adequate trunk road which has been partly upgraded through the project. None or almost none of the project's benefits would have been recorded in the absence of such a trunk road.

However, doubts have arisen about the maintenance of the upgraded roads, because of insufficient financial resources (mid term project evaluation report).

For a similar project to achieve such impressive impacts, a well connected road network and a sustainable road policy are therefore required. This is considered by the evaluation team as a transferable lesson.

## 5.6. Basic education for all (E)

How far has EC support assisted in improving the equitable access to quality basic education for all?

### 5.6.1. Policy reforms and dialogue

In 2000 a number of reports, including the EC-Country Strategy Paper (2001-2007) for Tanzania, noted that despite the focus on education in the country's development strategies and significant donor support, the sector had experienced a continuous deterioration for the past two decades. A number of challenges were identified as threats to the achievements in the education sector, and thus as undermining the country's effort to combat poverty. These included:

- National illiteracy rate 33% (40% for females), low and declining school enrolments and inequitable access with net enrolment in primary schools at 57%, in secondary school at 7% and in higher education at less than 1% (2000);
- Low quality of education resulting from low teacher qualification, shortage of appropriate teaching/learning materials & tools, and poor physical infrastructure;
- Low retention rates and large regional disparities, late school entries, high drop-out rates for girls, etc.

A major policy reform was passed in 2000, consisting in the abolition of school fees. This reform was consistently backed by all concerned development partners including the EC. A sector strategy was then considered and the EC selected basic education as one of its focal sectors.

Until recently, the EC was the lead partner in the working group ensuring co-ordination in the education sector. Belgium now holds this lead co-ordination role. However, the EC remains the lead partner in terms of trying to develop a strategy covering the sector as a whole, as opposed to the current focus on primary education only.

As one step towards the operationalisation of a basic education policy, the government developed and launched a country-wide five-year Primary Education Development Programme (PEDP) in 2001. The Programme was meant to expand enrolment, to achieve Universal Primary Education (UPE), and to improve the quality of the teaching and learning processes. It was supported by a number of donors through a basket fund mechanism. Within the scope of this evaluation, EC contribution to the education sector has been through support to the PEDP (8th EDF)<sup>33</sup>.

According to EC informants, the absence to date of a full sector approach in education is manifest in the multiplicity of sub-sector ministries and agencies and the need for overall leadership and co-ordination. Education policies and strategies also need to be more clearly linked to major national reforms such as fiscal decentralisation, public financial management and local government reform.

### 5.6.2. Access to basic education

Net primary enrolment rates have increased dramatically since the removal of school fees. In 2005 about 95% of children aged 7-13 were enrolled in schools. More than 7.5 million children are now enrolled in primary schools, up from 4.4 million in 2002. The number of schools has gone up by more than 20% to 14,300 (from 11,700 in 2000). Distance to school has, to a large extent, been reduced. The number of teachers increased by more than 25% to 135,000 (from 107,000 in 2000).

Drop-out rates have fallen in recent years but despite this fact, one child in five that enters Standard 1 does not complete primary school. Exam pass rates have been increasing consistently both in Standards 4 and 7. In 2004, 49% of primary school leavers passed their final year exam, more than double the rate in 2000. More children leaving primary school are also being selected for secondary education. In 2004, 36% were selected, up from 22% in 2000.

<sup>33</sup> Implementation of 9<sup>th</sup> EDF was due to start during the evaluation process.

These impressive records are owing to EC support, first as one of the major financial contributors to PEDP, and second as one of the lead partners in the policy dialogue.

However, despite these impressive quantitative achievements, the quality of education remains a significant challenge with typical class sizes over a third larger than before 2000. The teacher training upgrading programme has been reformed through PEDP but the first cohorts have not yet completed the new programme. Teacher Resource Centres have been built but few primary teachers have enrolled for O-Level Courses and many are run simply as O- and A-Level tuition centres (Mushi, Penny et al 2003)

### 5.6.3. Equity in access to education

There have been near equal numbers of girls and boys enrolled in primary schools for at least the last ten years. The figures for 2005 show that there are 96 girls for every 100 boys enrolled, with similar ratios from Standard. 1 through to Standard. 7. Pass rates for the Standard. 4 exam are around 85% for both girls and boys. The area that does show a gender gap is success in the primary school leavers' exam taken in Standard 7. In 2004, 42% of girls passed of 55% of boys.

There are also mixed records in terms of geographical coverage. The pupil/teacher ratio has increased in less advantaged rural areas, sometimes faster than average.

No significant progress is recorded as regards disadvantaged children.

Lastly, there has been substantial increased involvement of communities in supervising the management of schools, including appropriate utilization of resources allocated to schools.

### 5.6.4. Question E answered (Basic education for all)

Impressive quantitative changes have been recorded since the abolition of school fees in 2000. Through a basket fund mechanism, the Government and a number of development partners have accompanied the increase in primary school enrolment. A reported element of success has been the strengthening of the capacity of schools to manage their affairs. School planning, management and reporting have improved and hence accountability has also improved.

The EC contribution to the achievements is significant. The EC was one of the major financial contributors to PEDP, and a lead partner in the policy dialogue

Key bottlenecks in the reform of basic education in Tanzania include too much focus on quantity at the expense of quality, and lack of a strategy covering the sector as a whole, as opposed to the current programme that has focused purely on primary education.

## 5.7. Stable farmers' income (A)

To what extent has EC assistance promoted agricultural development and supported the stabilization of farmer incomes in tea and coffee growing areas?

### 5.7.1. Policy reform and dialogue

The EC started talks on a sector strategy as early as the mid-90s. EUR 18 million support was allocated, partly with the aim of developing an Agricultural Sector Development Strategy (ASDS). However, since the Government was providing no leadership for either basket funding or sector budget support, nothing happened for a long time. There are now agreements on an Agricultural Sector Support Programme (ASDP), which includes joint donor funding and an approach to support activities through Local Government Authorities. All support is being coordinated by the Agriculture-led Ministries.

Although a sector strategy is to a large extent in place, the dialogue between the Government and development partners on the Agricultural Sector Support Programme has not progressed much. There is a lack of connection between sector dialogue and dialogue on the budget. There is also limited government capacity (in the sector) in terms of ability to design, execute and monitor the policy developed with the help of development partners. The capacity limitation is particularly bad at district level.

As part of supporting the ASDP, the EC is instrumental in preparing joint donor initiatives to support District Agricultural Development Plans. This move is very timely because until now the support to agriculture has tended to be excessively centralised.

### 5.7.2. EC financial support

There were no specific objectives identified in the CSP in relation to Agriculture and Rural Development and no allocations within the NIP were made to these areas.

STABEX funds were made available as a measure to stabilize the economy affected by coffee and tea export losses. Up to 1993 Tanzania benefited from a total of 51 million Euros of STABEX allocations. In 2003 it received an allocation of 38 million Euros to stabilize export losses between 1994 and 1999. This amount includes balances of the 1990-1993 transfers. A Framework of Mutual Obligation (FMO) was concluded in February 2003 for a period of three years to outline the utilization of the allocations.

STABEX funds, which were previously used in the form of direct aids to farmers, are now channelled through projects. STABEX interventions are managed at the level of specific products, namely, coffee, tea and, to a lesser extent, cotton. However, support was also given to key studies on the reform of Crop Boards, the Agricultural Census and the development of the strategic action plan to implement the Land Acts, all of which lay the basis for wider reform of the sector.

Given the importance that the EC has attached to supporting policy reforms and strategies, the allocation of STABEX Funds has been targeted to a strategic tool to support ASDS and ASDP priorities under the 9th EDF. The 1994 and 1999 Coffee transfers plus the remaining balance from earlier funds, all totalling EUR 40 million, will go to support ASDS (and PRS).

The EC support to priority rural roads has just started (1 January, 2005) and will be completed in 2007. The project was identified during the preparation of the FMO 94/99 for Coffee as one of the priority areas of Intervention under the FMO.

### 5.7.3. Farmers' income

Current EC projects have impacted on farmers' income through various channels, mainly: increased productivity, increased quality and selling prices, better access to credit, better management capacity, and improved access to buyers. Both in-depth studies in the agriculture sector show very significant impacts on beneficiary farmers and some positive indirect effects. Box 7 is a success story where employment has considerably increased, as a consequence of improved farmers' income.

## Box 7 – Impact of an agriculture project

Through EC support, the Tanzania Coffee Research Institute (TaCRI) has developed five improved coffee varieties, without external dependence. These varieties have high yields, are disease resistant and are labour saving due to reduced pruning compared to old varieties. Small farmers using these varieties have increased their yields from an average of 0.5 kg to 2 kg per coffee tree. The quality of coffee has also increased, as reflected by better prices paid to farmers – from an average of 1,000 Tshs per kg before the new varieties to Tshs. 1,500 per kg after that. Farmers see the new varieties as commercially viable.

The main problem is the availability of these varieties. The demand far exceeds the supply, as TaCRI's capacity is low. Attempts have been made to train farmers to do the multiplication (budding) themselves, but the supply from such sources is also too little to meet the current demand, not to mention future demand as more farmers become aware of the benefits of new varieties. Other problems include the shortage of water, as the new varieties need far more water to process the increased cherry production, and the shortage of manure.

Employment is also said to have increased; this includes self-employment and casual wage employment in coffee and related activities. From focus group discussions, it was concluded that both self-employment and hired seasonal employment in areas adopting new coffee varieties had increased more than threefold<sup>34</sup>. This is mainly a result of more labour needed for tree planting, collection and transportation of manure and grafting.

In the area of extension, the EC Support has led to substantial improvement. In particular, extension services are now provided through groups (organised extension), which appear to be effective in terms of building farmers' capacity and knowledge sharing. This extension approach, together with training on technology use given to farmers, are also seen as crucial for the sustainability of activities after the EC Support ends. Farmer-days have been revived at Community levels (as opposed to the previous focus on National and Regional level farmer days). Extension services are also provided through radio, TV programmes and pamphlets. Training on budding and grafting technology, together with that on group management and administration, has also been provided.

This very successful project has had its impacts limited by several factors like the lack of local and feeder roads and insufficient farmers' access to credit.

In order to ensure sustainability, the coffee research and technology transfer is funded jointly from the tax on coffee sales and STABEX resources. A further EUR 9 million from STABEX resources are to support investment in the institute (TaCRI) as well as establishing an endowment fund, which will generate a regular flow of income, allowing TaCRI to sustain its work. (Joint Annual Report on Tanzania, EU Cooperation 2002)

This example does not only show a success story. It is an interesting illustration of the limitation of impacts in the case of a stand-alone project, since benefits would have been even higher if the project had been part of a local development approach also dealing with rural roads and access to credit<sup>35</sup>.

<sup>34</sup> Considering the very impressive set of reported impacts, the evaluation team has carefully verified the absence of biases in the interventions of the participants in the focus group. Several risks in data collection have been identified, examined and rejected (see Volume 2 Section 338).

<sup>35</sup> This should not be read as a negative statement of the effectiveness of the project in itself.

#### 5.7.4. Question A answered (Stable farmers' income)

The EC has contributed for years to the development of an agriculture and rural development strategy. Since the development of the CSP, and despite the lack of a fully targeted response to this sector, the support to the Government's initiatives in this arena have been continued, both through active policy dialogue and financial support via STABEX.

The EC has adequately promoted a decentralised approach of the Agriculture Sector Development Programme.

Generally good and sometimes excellent impacts have been achieved by EC funded projects, although they remain limited by the lack of a coherent rural development approach.

## 5.8. Trade and regional integration (R)

How far have EC interventions in the field of trade and regional integration addressed Tanzania's needs and priorities and shown coherence with other national actions?

### 5.8.1. Policy reform and dialogue

Tanzania is currently a member of the East African Community (EAC), together with Kenya and Uganda and the Southern African Development Community (SADC). Tanzania left COMESA in September 2000. As the following box shows, trade and regional integration are two intricate issues.

#### Box 8 - The East African Community (EAC)

The strategy under the EAC (2<sup>nd</sup> Development Strategy 2001-2005) is based upon the goal of creating wealth in the region and enhancing competitiveness through increased production, trade and investment in the region. Emphasis is placed upon accelerating development and building the capacity to compete effectively in the world economy.

Noteworthy economic and trade integration has begun with the formation of a Customs Union which became operational on 1 January 2005 between the three EAC member states. The EAC envisages the future creation of a common market and eventually a political federation.

Trade between the EAC Partner States has grown over the past decade. Between 1991 and 2002, the share of exports between East African States increased from 6 to 18 percent.

The EU is the main trading partner of EAC countries. While regional trade has grown somewhat, the European Union (EU) remains the largest market for EAC exports, absorbing around 40 percent.

Building support to ensure Tanzania benefits fully from its regional situation, and in particular the EAC Customs Union and Common External Tariff, will depend upon a resolution of the outstanding issue of "dual configuration" (SADC and EAC). The EC Delegation sees EAC as the economic reality for Tanzania, whereas the SADC Customs Union ambition is further in the future and no member of the SADC has Tanzania as its main trade partner. It recognises, however, that it is important to respect national sovereignty over such decisions.

The EC Delegation is the lead Delegation for EAC relations. With limited human resources it has played a proactive role in coordinating donors to the EAC, to help the Secretariat build its capacity to meet the challenges of its ambitious mandate.

Both the Delegation and EC headquarters consider that the EPA process focuses on the mainstreaming of trade into development. Measures such as improving the availability of credit, public procurement reform, customs reform, introduction of the VAT, etc. will all have an impact on the viability of any EPA to which Tanzania is a signatory. Indeed, the EPA logic stems from the fact that many least developed countries have so far failed to capitalise on the market access opportunities afforded them under the "Everything But Arms" Initiative.

The EC has recently taken a proactive role in trade and regional integration<sup>36</sup> in two main ways:

- Developing the Government's capacity to design trade policies and to negotiate trade agreements, and initiating policy dialogue on these issues.
- Encouraging donors to prepare an institutional diagnosis with a view to collecting contributions to basket fund support.

<sup>36</sup> Up to 2003, the main partners involved with trade technical assistance to Tanzania were WTO, ITC, UNCTAD, World Bank, DFID, SIDA and IOB (see Evaluation of the Joint Integrated Technical Assistance Programme - June 2004 - Netherland's Ministry of Foreign Affairs - Country report Tanzania)

Although trade and regional integration were not high on the Government's agenda at the time of the design of the CSP, the Government (MIT) has made a significant effort in the last year to improve co-ordination of trade. The establishment of the National EPA Technical Team is crucial to that.

The Government has now integrated trade into its new poverty reduction strategy (MKUKUTA), which can be seen as partly owing to the EC's efforts.

### 5.8.2. EC support

Financial support within Tanzania has focused on technical assistance and capacity-building, especially within the Ministry of Trade and Industries – on issues of how to deal with the WTO, EU (EPA negotiation study and skills) and America (AGOA). These activities have not involved heavy financial support.

In areas like transport and education, the EC has been both a major donor in financial terms and a key player in the policy dialogue. The rationale for mixing both approaches can be understood as (1) an opportunity to connect financial support and progress towards policy reforms and/or (2) a kind of price paid by the donor in order to gain legitimacy in the policy dialogue.

Trade and regional integration are an example where the EC has been seen as a legitimate player without paying an "entry price" in the form of substantial financial support, and where significant political steps have been taken without any progress-related approach.

This finding warrants more in-depth analysis, possibly across several countries, in order to better understand the drivers of successful policy dialogue.

The evaluation team has extended its reflection in another direction with the following question: "would it have made sense for the EC to mobilise some kind of large financial support in order to back up its position as a key player in the areas of trade and regional integration?" EIB loans to private-sector development appear as potentially interesting in this respect, at least in theory. In practice, it would have been premature to take more than the first steps in that direction for three reasons. First, the EIB loans to private-sector development are all but large compared to the EC support in other policy areas like education or roads areas. In fact, the grant element of the accepted loan amounts to about EUR 3 million. Second, associating EIB loans and policy dialogue would have required a level of co-ordination which is not yet established between the EIB and the Commission<sup>37</sup>. Third, EIB loans are mainly driven by private-sector demand and hence are by and large non-programmable, which means that it would be difficult to connect them to policy dialogue.

### 5.8.3. Coherence between regional and national strategies

The regional EC Strategy (under the 9<sup>th</sup> EDF) focuses on three key areas:

- Economic Integration and Trade with the specific objective of enabling all countries in the region to become members of regional Free Trade Areas and/or Customs Unions and to improve trade negotiating capacities at regional and multilateral levels.
- Transport and Communications in order to facilitate easier and cheaper trading systems.
- Management of Natural Resources with the objective of ensuring sustainable management of the natural resource base of the region.

Alignment of priorities was only visible in the area of transport. Trade, economic integration and natural resources show complementarity rather than alignment.

From the evaluation team's interviews, it appears that trade and private-sector development were discussed during the mid-term review involving the government, development partners, and non-government stakeholders.

In areas of trade and regional integration, the EC is balancing its support:

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<sup>37</sup> To the evaluation team's knowledge, Tanzania is one of the 'core countries' where such co-ordination should develop (source DG DEV, programming guidelines). In core countries the EIB is expected to specify how its interventions could best be integrated into the overall country strategy. To the evaluation team's knowledge, this principle has not yet been put into practice as regards Tanzania, but it is to be noted that the EIB has recently opened an office for Eastern Africa.

- At national level, the EC has supported measures that enable regional integration to work and to mitigate any effects resulting from the integration. For example, the EC has supported the reforms in revenue and tax policies aimed at simplifying the tax system, reducing effective protection and eliminating undue reliance of the government budget on revenue from import taxation, by introducing VAT. Another important form of support has been on the establishment of unified revenue authorities that have significantly reduced the costs of administration of internal taxes and customs duties by bringing all taxes under a single central administration. Support has also been offered in simplifying and liberalising investment approval processes and in publishing investment codes and regulatory instruments.
- At regional level, the EC has supported institution-building and measures that can be better handled at cross-national level for technical reasons (e.g. road framework, cross-border natural resources) or economic reasons (e.g. standards, which is an expensive endeavour and which may be subject to economies of scale if handled at regional level).

#### **5.8.4. Question R answered (Trade and regional integration)**

The EC has played a precursory and successful role in supporting trade and regional integration especially through its commitment and support to the ACP-EC Partnership Agreement. The EC Delegation in Tanzania was the lead Delegation as regards interaction with the EAC. Financial support within Tanzania has focused on technical assistance and capacity-building, especially within the Ministry of Trade and Industries.

Trade has been an area where the EC has demonstrated a strong commitment, although with limited financial support. This is consistent with the view of both the Delegation and EC headquarters, that the EPA process focuses on the mainstreaming of trade into development.

Trade and regional integration are an example where the EC has been seen as a legitimate player without paying an “entry price” in the form of a substantial financial support, and where significant political steps have been taken without any progress-related approach. There was an opportunity to start connecting the EC’s contribution to policy dialogue and EIB loans to private-sector development, but the opportunity has not yet been seized.

## 5.9. Promotion of good governance (G)

How successful has the EC been in contributing to the promotion of good governance within the areas it has supported?

### 5.9.1. Overview of supported areas

The current CSP identified Governance as a non-focal sector of co-operation, with a total allocation of 10% of the overall 9th EDF budget, that is, approximately € 29.1 million. In the period covered by the evaluation, no funds from the 9th EDF had been committed.

During the evaluation period, the financially supported areas were the following:

- Contribution to the basket fund supporting the Public Finance Management Reform Programme (the EC is one of the main contributors – the funds are included in the budget support), and support to the Prevention of Corruption Bureau together with UNDP (EUR 2 million - 8th EDF)
- Support to the ‘Implementation of Zanzibar Political Accord Muafaka’, together with several development partners (EUR 2 million - 8th EDF)
- Support to Civil Society and Non-State Actors (EUR 18 million – 8th EDF, micro-projects and budget-lines)

The EC is currently the Chair of the Governance Working Group and of the political dialogue cluster.

The main concerned areas are addressed in the following sections successively.

### 5.9.2. Public finance management and prevention of corruption

Anti-corruption measures are addressed in the Poverty Reduction Strategy of Tanzania, where corruption is identified as one of the main impoverishing factors. Anti-corruption efforts are cross-cutting and incorporated in the strategic interventions of all current core reforms of the public sector in Tanzania: Public Finance Management Reform, Legal Sector Reform, Public Sector Reform and Local Government Reform.

First, the EC has promoted the reform of public finance management in connection with its general budget support. It is one of the main contributors to the basket fund through which technical assistance is provided to the Government in the area of public finance management. Second, the EC has recently included performance indicators related to public finance management in the bases for disbursement of the variable tranche of the budget support. In 2005, more than one third of the variable tranche was connected to such indicators for 2004. In fact, indicators show a relatively low level of performance, which has limited disbursement. In particular, the proportion of identified corruption cases that have led to prosecution is too small.

A similar approach has been adopted by other development partners. For instance, in 2004 the failure to complete prior actions in the area of public finance management led to a delay in the disbursement of the Poverty Reduction Support Credit (World Bank). The consistent approach of development partners has clearly been decisive in the adoption and improvement of the Public Finance Management Reform Programme (GBS evaluation).

All development partners included, a substantial level of technical assistance support has been provided to financial management reforms, initially through discrete projects and since 2004 through the Reform Programme structure. There has been a significant strengthening of the agencies most involved with financial management, including in particular the Ministry of Finance and the Accountant General’s Department. The management structure of the Reform Programme is now established and amendments to the Procurement Act have been prepared.

As a second contribution to improving financial management, the EC decided in 2000 to support the Prevention of Corruption Bureau (PCB) for a total of EUR2 million.

The objective was to increase the capabilities of the PCB and of its staff to deliver its core activities: prevention, investigation and advice. The support covered three areas: institution-building, technical assistance, and awareness raising. From a recent review of EC support to the PCB, it appears that the management results were not achieved.

Under the 9th EDF, the EC has broadened its anti-corruption support. It now has a two-pronged approach, which includes direct support for the PCB's management and capacity-building, and support to the overarching National Anti-Corruption Strategy and Action Plan (NACSAP) through a UNDP-led basket fund.

Looking back to the two contributions of the EC in the area of financial management, it appears that the Government has not seen this issue as such an important priority as the development partners do. The GBS evaluation states that although "the level of corruption remains a serious concern to private-sector enterprises, the commitment of donors to passing funds through the budget does not appear to have prompted any increase in parliamentary or interest group pressure on the government to take more vigorous steps". During the period under evaluation, the general budget support mechanisms did not provide an arena that would have allowed to discuss the issue of fighting against corruption at a sufficiently high political level<sup>38</sup>.

### 5.9.3. Conflict prevention in Zanzibar (Muafaka Agreement)

The support stemmed from the October 2000 Presidential elections in Zanzibar, which were marred by allegations of serious electoral irregularities. The ensuing political violence and suppression of protests by the main opposition party aggravated an already volatile political situation on the Island. The subsequent reconciliation efforts were successful, resulting in the signature of the Muafaka Agreement between the two main parties (CCM and CUF) in October 2001.

- The Commission, along with nine other donors, has been supporting the implementation of the Agreement through a basket fund. A substantial amount of resources were spent on the election preparations such as voter registration and education, and election material. The work of the basket fund's steering committee lacked efficiency as there was no clear division of labour and tasks. The funds are now managed by the UNDP.

The Muafaka Agreement has certainly led to some improvement in the political climate in Zanzibar, although not enough in view of the recent electoral process. It has been noted that other parties have been invited to join the agreement, which is a positive indication.

### 5.9.4. EC Support to Non/State Actors

In the midst of various planned and ongoing efforts by other donors to strengthen NSAs in order to increase accountability of public institutions and build up social capital<sup>39</sup>, it is important to identify the added value of EC interventions. Like other development partners, the EC started funding a number of micro-projects supporting civil society organisations through budget lines. It has recently moved to targeting non-state actors (NSAs) at national level. A design phase has allowed the identification and involvement of relevant NSAs. Three specific benefits can be identified:

- Through a tripartite process, the programme is formulated by the NSAs, submitted by the Government and financed by the EC. This international legal agreement guarantees that the programme is based on a sound and transparent policy framework. None of the other support programmes to NSAs is the result of such an inclusive and participatory process. The focus and content of the programme are the result of this process.

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<sup>38</sup> This statement applies to the period under evaluation. It must be noted that a high level meeting (Minister and Head of Delegation) has taken place on this subject in September 2005.

<sup>39</sup> A major achievement in this area has been the establishment of the Foundation for Civil Society, with support from several development partners, but not directly from the EC.

- This is the only programme with an inclusive NSA approach, i.e. civil society, private sector, trade unions, etc. The programme is designed to reflect and strengthen inclusiveness as it really focuses on activities that can benefit a maximum number of organisations.

The actual start of the support has been delayed, but the Government is reported to have already used the EC's inventory of NSAs in order to develop consultation processes.

### 5.9.5. EC Support to Decentralisation

From 1999 to 2003, the EC Delegation was an active member of the Local Government Reform Programme Steering Committee and provided support from counterpart funds. In 2004, the review of the LGRP concluded that very good progress had been made in the restructuring of the local government authorities and fiscal decentralisation. The Delegation was actively involved in the preparation of the 3rd Medium-Term Plan of the LGRP and stressed the need to improve government efforts in decentralisation by devolution.

EUR 22.7 million was earmarked for support to decentralisation via the Local Government Reform Programme under the 9th EDF. In 2003, a draft financing proposal was prepared to commit these funds and to make additional support available to improve the planning capacity at village and ward level. Due to the government's wish to harmonise its area-based programmes and to bring them in line with its fiscal decentralisation efforts, the finalisation of the programme was delayed until September 2004. The draft-financing proposal (called the Local Governance Capacity Building Programme) included, among other things, a contribution to the LGRP basket. Restrictions on basket funding under the 9th EDF rules have led to the revision of the financing proposal by July 2005. The EC support is now expected during the first semester of 2006.

The Local Government Reform Programme (LGRP), which seeks to re-vitalise LGAs and improve service delivery, has recently been evaluated. The review states that there has been significant progress over the past three years in the service delivery role of local governments in Tanzania.

The lessons learned from these evaluations and the newly designed discretionary development grant and related capacity-building grant systems have been considered in the financing proposal. The new Local Governance Capacity Building Programme (LGCBP) Financing Proposal includes performance incentives and a formulae-based approach to allocating grants.

### 5.9.6. Question G answered (Promotion of good governance)

The EC's financial investments in the area of governance were small during the period under review, with only 2% of all total commitments going to governance and civil society. Except for the EC's contribution to the Public Finance Management Reform Programme (in the framework of general budget support), governance-focused initiatives under the 9<sup>th</sup> EDF had no firm commitments during the evaluated period. However, the EC has made a key input into policy dialogue and capacity-building in several areas like conflict prevention in Zanzibar, involvement of non-state actors and decentralisation.

Given the limited success in financial management indicators and the somewhat negative review of the support to the Prevention of Corruption Bureau, it does not appear that the EC has been able to significantly contribute to the reduction of corruption in Tanzania, which remains a matter of concern. The EC is currently, however, making increased efforts and contributions to integrate good governance into its dialogue with the Government and other partners.

## 5.10. Cross-cutting issues (X)

To what extent have EC interventions in Tanzania, where relevant, successfully addressed gender and environment issues and ensured the involvement of Non-State Actors?

### 5.10.1. Mainstreaming of cross-cutting issues

In 2000, the Government's poverty reduction strategy mentioned gender, HIV/AIDS and non-state actors as important cross-cutting issues in relation to poverty reduction. The Tanzania Assistance Strategy added environment.

The EC has stated its interest in the four issues in its country strategy paper, although environment was not formally quoted as a cross-cutting issue because it had not been given this status in the Tanzania's PRS. The CSP (see p.13) has identified that extensive agricultural and livestock production, with associated burning, overgrazing and deforestation, have resulted in rapid depletion of natural resources and destruction of the environment. The new Government's strategy issued in 2005 goes much further in integrating environmental aspects and should form a better basis for the EC's support. DFID and UNDP are reported to have contributed to this positive change through advisory inputs<sup>40</sup>.

In the framework of this evaluation, it was decided to investigate gender, environment and non-state actors. Evidence about HIV/AIDS was also obtained incidentally. EC efforts towards addressing cross-cutting issues have been observed in the following instances:

- Environment (management of natural resources across borders) is one of the three focal areas addressed in the Regional Strategy Paper
- Environmental sustainability has been included as one of the six objectives for measuring Government performance in the framework of the General Budget Support. This gave the Government a further incentive to adopt the Environment Management Act which had been under preparation since six years. According to the Court of Auditors, Tanzania was the only country where such an approach as been chosen, among 13 countries studies by the auditors<sup>41</sup>.
- The CSP (p.21) mentions that environmental considerations will consistently be addressed in road investment projects. The Court of Auditors' report considers that the environmental impact assessments carried out for very large road investments funded under the three last EDF cycles were not satisfactory<sup>42</sup>.
- In the scope of this evaluation, 16 projects (EUR 23 million) were related to the environment and natural resources, an issue which was also addressed as a component of the special programme for refugee-affected areas (although with limited success).
- The issue of gender was actively mainstreamed in the case of pooled support to primary education.
- One of the road projects studied in more depth (RUSIRM) was designed with an innovative gender-related approach. Men and women were employed equally on work sites and village women's associations were entrusted with and trained for the daily routine maintenance of some of the rehabilitated roads (see Box 6).
- The EC has successfully played a key role in promoting involvement of non-state actors at national level, and has supported many grass-roots NGOs.
- The EC has supported the involvement of NSAs in the formulation of a coherent trade policy framework, with emphasis on preparing for the Economic Partnership Agreement.

<sup>40</sup> European Court of Auditors. Environment Audit, Statement of preliminary findings, December 2005.

<sup>41</sup> Same reference

<sup>42</sup> Same reference

- Through its contribution to general budget support, the EC has taken part in tackling the HIV/AIDS crisis. EC projects have also been funded in this area. Finally, the issue of HIV/AIDS has been mainstreamed in all road projects (prevention during the works).

The above list shows that significant efforts have been made to address cross-cutting issues. These efforts have sometimes taken place at a very relevant level, like:

- Mainstreaming environmental sustainability in the framework of the General Budget Support,
- Mainstreaming gender in the framework of the primary education basket fund,
- Mainstreaming gender in the framework of the RUSIRM pilot project.

Cross-cutting issues have sometimes been addressed through a ticking-boxes approach. This is clearly regretted by the European Court of Auditors as regards the environmental impact of road investment projects. However, the evaluation team has undertaken a specific inquiry into a couple of road investments projects, and it has not identified any major reason why environmental consequences should have been mitigated.

The EC Delegation has adopted various approaches with cross-cutting issues, ranging from high-level strategic thinking to ticking-boxes routines or even no approach at all<sup>43</sup>. Several of the above quoted examples suggest that the options taken may have been relevant in the sense that mainstreaming efforts have been directed towards problems that are both challenging and solvable, a point which is discussed in 6.1.4.

### 5.10.2. Cross-cutting issues and funding modalities

In most of the cases quoted above, cross-cutting issues have been mainstreamed in the framework of EC-managed projects. The Primary Education Development Programme is particular in the sense that the support has been delivered through a basket fund which has some of the features of sector budget support. As noted above, the issue of gender has been mainstreamed, and this is visible through the fact that it has been extensively addressed in the recent evaluation of the programme. The programme evaluation suggests, however, that the adopted funding modality had significant disadvantages in this respect. Moreover, gender-related impacts are not visible in the indicators (see 5.6.3). This is one of the reasons why the EC Delegation has encouraged progress towards sector budget support, a modality which allows a result-oriented approach to the gender issue.

As seen above, the general budget support has successfully integrated environment.

### 5.10.3. Question X answered (Cross-cutting issues)

The EC has a clear policy on cross-cutting issues. In several instances, efforts to mainstream cross-cutting issues have taken place at the right level (environment and budget support, gender and education, gender and roads). Sometimes a ticking-boxes approach has been adopted or no approach at all, but an example (environmental impact assessment of road projects) shows that a more systematic mainstreaming would not have made a difference in terms of addressing challenging and solvable problems.

Most of the efforts towards addressing cross-cutting issues have taken place through or within EC-managed projects. The education sector suggests that the basket fund mechanism has limitations in terms of integrating cross-cutting issues, and that these limitations could be overcome in the case of sector budget support.

<sup>43</sup> Case of gender in the two projects investigated in-depth in the agriculture sector.

## 6. OVERALL ASSESSMENT

This part of the report synthesises the answers to evaluation questions and adds a limited number of complementary analyses. It summarises the main findings (marked with an F), introduces the conclusions (marked with a C) and, where relevant, proposes lessons of more general value, i.e. useful for countries other than Tanzania (marked with an L). Conclusions involve value judgements under the responsibility of the evaluation team, generally applying previously agreed criteria which are listed in Volume 2, Chapter 4. Exceptions are mentioned in the text.

The section is organised in five parts: EC strategy, impact of EC support, policy dialogue, funding modalities, and learning from impact information.

### 6.1. EC strategy

#### 6.1.1. The EC's choice of priority areas

When the EC started to design its country strategy paper in 2000, the Government's Poverty Reduction Strategy was about to be finalised through a process which involved wide-ranging and in-depth consultations with development partners and non-state actors, and which can therefore be qualified as legitimate.

Dialogue between Government and development partners continued until 2001 in order to reach agreement on the Tanzania Assistance Strategy. The EC strategy was designed in parallel with these two other processes. The EC strategy paper was designed jointly with the Government, with a significant input of non-state actors.

Both parallel and connected processes have ended in a large degree of alignment of priorities per sector/area (5.1.2). The degree of alignment is large in the areas of transport, governance, education and, to a lesser extent, agriculture. If the regional strategy paper (RSP) is also taken into account, then it must be said that the EC also gives priority to trade and regional integration, and environment, two areas which are not prioritised in the Government's strategy. Health is the main Government priority in which the EC has not indicated any specific support. When considering *de facto* priorities, the alignment of both strategies is even better.

*F – Broadly speaking, CSP priority areas were aligned by design on PRSs, and remained aligned de facto.*

Considering the wording of Question "C" (To what extent did the design of the EC support strategy take due account of the Tanzanian strategic priorities ...?), it must be said that such an alignment can be judged positively.

In light of this evaluation, this assessment may be qualified as follows. Alignment was positive in the sense that:

- Strategic priorities were set through a nationally-owned and wide-open process and gained legitimacy
- Alignment has favoured co-ordination and complementarity among development partners
- Initial alignment subsequently facilitated the EC approach to progress-related support (see 6.3.5).

The case of trade (see 5.8) suggests that misalignment can also be judged positively, at least under the conditions which prevailed in Tanzania during the period under evaluation, i.e.

- Misalignment applied to dialogue and technical assistance, not to large financial support.
- The EC's priority did not contradict Government's choices. It just filled in a gap.
- The EC Delegation's efforts were unambiguously backed by a clearly stated policy and a sustained commitment at headquarter level.
- The area was very likely to become a challenge for the Government.

*C – As a consequence of alignment, the bulk of EC support was oriented towards needs and challenges that had been identified through a legitimate process. The EC played a positive role in an area like trade, which has subsequently been prioritised by the Government.*

### 6.1.2. Orientation towards poverty reduction

The comparative analysis of objectives in both EC and Government strategies shows a strong alignment of objectives (5.1.3). The overall objective on both sides is the reduction of poverty through economic growth and social development.

This evaluation also includes an analysis of the logic of successive EC strategy documents. The introduction of poverty reduction as an overarching objective has been one of the major changes, while the rest of the overall logic has remained almost unchanged, even if the sectors covered have been amended (e.g. water and sanitation are no longer prioritised).

*F – The objectives stated by the EC in the CSP were closely aligned on Government’s objectives stated in the PRS. In 2001, the EC introduced poverty reduction as a new overarching goal appended to a basically unchanged strategic approach.*

The introduction of poverty reduction as a new overall objective calls for an explanation of the EC’s potential contribution to poverty reduction. In the strategy paper itself, what comes closest to such an explanation is the concept of “poverty incidence”, but this concept is not defined and has not been a discriminating factor in the choice of priority sectors/areas.

The evaluation team used Government strategy documents and its own expertise in order to reach a definition of poverty incidence in the form of five chains of impacts called “paths towards poverty reduction”<sup>44</sup>. This definition was used in an analysis of the portfolio of EC interventions<sup>45</sup>, except general budget support. A panel of four Tanzanian experts was asked to rate the Government’s efforts in relation to the same five paths. The poverty reduction pattern of the EC portfolio was then compared to Government’s efforts (Figure 5). The main findings are the following:

- “Conducive development environment” (Path 1) has been devoted the highest efforts on both sides.
- “Equitable access to basic services” (Path 4, hereafter called “equity”) is also ranked highly on both sides. On EC’s side, this finding is mainly related to the financial weight of the transport sector, given that an improved road network considerably improves access to basic services in poor rural areas (5.5). It is, however, the evaluation team’s view that equity has not been mainstreamed in a proactive way (5.1.3).
- “Growth of economic activities where the poor engage” (Path 2) comes third in the EC’s efforts, with a relatively higher priority given on the Government’s side.
- “Expanding basic services whilst protecting quality” (Path 5) was found to have been paid low attention in the projects/programmes analysed, and to have been devoted less efforts by the EC than by the Government. This has much to do with the postponement of commitments in the education sector, which has a high potential for expanding basic services and was a focal sector in the EC’s strategy.
- “Reducing vulnerability” (Path 3) has been addressed in a limited number of specific areas like HIV/AIDS and gender, which have received relatively little financial support. In contrast, vulnerability is assessed by the expert panel as benefiting from relatively large efforts on the Government’s side. This imbalance is also reflected in the strategy papers. Reducing vulnerability has the status of a strategic priority in the Government’s Poverty Reduction Strategy, but the term is used only once in the EC’s strategy paper, and in an incidental manner. In areas other than HIV/AIDS and gender; actual efforts towards the most vulnerable people have been the exception. The reduction of vulnerability is not an area for performance monitoring in the framework of the general budget support.

<sup>44</sup> See definitions in 5.1.3

<sup>45</sup> The tool, which has been developed and applied for this analysis, is described in Volume 2, Sections 33 and 73.

*F - In terms of actual efforts, the EC's approach to reducing poverty has been prioritised on "conducive economic environment", "growth of activities where the poor engage" and "equitable access to basic services". Low or very low priority has been given to "improving basic services" and "reducing vulnerability". The latter dimension has, however, been paid much greater attention on the Government's side. There are indications that equity in access to basic services has not been systematically mainstreamed, for instance in the areas of basic education and water supply.*

Should these findings be judged negatively? If the EC's strategy is to be judged in terms of alignment on Tanzanian priorities, then there is a misalignment as regards the reduction of vulnerability.

Another judgement criterion could be that "the EC has achieved a coherent approach to tackling all dimensions of poverty reduction". This would end in the conclusion that an important dimension ("vulnerability") is missing. It would, however, be unfair to apply such a criterion because the EC has not committed itself to tackling all the dimensions of poverty reduction. On the contrary, the sharing of roles among development partners may easily justify the EC's focus on the dimensions of poverty reduction where it is recognised as being more competent.

A third approach is to develop a judgement criterion like: "The EC has managed to make its poverty reduction strategy understandable to EU citizens"<sup>46</sup>. This approach makes sense to the evaluation team because EU citizens have recently been targeted by two highly visible pieces of work, which highlight the third and fourth dimensions of poverty reduction, i.e. vulnerability and equity (see Box 3 and Box 2), and which question the European support to Tanzania on these grounds. Although these works can be qualified as all but impartial, they do exist and they call for an explanation of the EC's approach to poverty reduction. This approach leads to the following reasoning:

- European support to Tanzania has addressed the poverty challenges in several ways, but equity in access to basic services has not been fully prioritised and the issue of vulnerability has been given a very low priority.
- The sharing of roles among development partners may probably justify this pattern of priorities.
- The EC's approach to poverty reduction has, however, remained implicit, which means that it could not be explained and justified to EU citizens, whatever its rationale.

*C – By not making its approach to poverty reduction explicit, the EC cannot explain and justify why a low or very low priority is given to the issues of equity and vulnerability..*

This conclusion should be read in light of a new step recently taken by the Commission and set out in a Communication (12 October 2005 - 'EU Strategy for Africa: Towards a Euro-African pact to accelerate Africa's development') which states that the 'EU will help making basic services available for the poorest people in Africa, contributing to the establishment of a social safety net for the most vulnerable'.

This conclusion is in line with that of several recent EC evaluations, e.g. country evaluation Uganda in 2001 ("inadequate poverty focus"), thematic evaluation on population in 2004 ("need to explore linkages between support and poverty").

### **6.1.3. The EC strategy-making process**

By design, the country strategy was meant to focus the EC support on a few priority sectors areas. This evaluation (5.1.4) shows that the principle of concentration has not been adhered to and that the strategy paper has not and could not be used for integrating all EC support into a coherent framework geared to country-level priorities..

The main part of the funds programmed in connection with the current strategy is being committed only now, almost five years after the strategy was designed (the reasons for such delays are discussed in 6.3.3). The objectives and priorities designed in 2000 are entering into practice now, when the Government has already designed its new strategy and is actively discussing it with all the development partners.

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<sup>46</sup> The evaluation team takes full responsibility for the introduction of this judgement criterion which is additional to the set of criteria agreed in advance with the reference group. The methodological justification is explained in Volume 2, Section 32.

On the side of the Government, it is strongly claimed (JAS documents and interviews) that excessive transaction costs are generated by multiple strategy-making processes with multiple donors at multiple points in time.

*F – In the context of Tanzania, and notwithstanding the general budget support and harmonised policy dialogue, the EC strategy-making process has not achieved concentration, coherence and predictability. The process involves transaction costs borne by the Government which has to deal with multiple donors' strategy-making processes at multiple points in time.*

These findings came more or less as a surprise in the course of this work, which means that they cannot be judged through previously agreed judgment criteria. The evaluation team has chosen to apply a very simple cost-benefit approach in order to move to a conclusion on the EC's strategy-making process, i.e. its overall benefits are very questionable although transaction costs are perceived as high on the Government's side.

This way of judging does not mean that transaction costs could or should be reduced to zero. Considering the size of EC support, a reasonable amount of discussion and formal commitment is required from both partners. In the following conclusion, transaction costs are not judged in absolute terms, but relatively to the benefits gained from the EC strategy making approach.

*C – Apart from general budget support and harmonised policy dialogue, the EC's approach to strategy-making has been disappointing. It has not delivered the expected benefits in terms of concentration, coherence and predictability, which would compensate for the transaction costs borne by the Government in dealing with multiple donors' strategy-making processes at multiple points in time.*

First, this conclusion should be read in light of the Rome declaration on harmonisation (25/2/2003), in which the donor community recognises “the growing evidence that a wide variety of donor requirements and processes for preparing, delivering, and monitoring development assistance are generating unproductive transaction costs for, and drawing down the limited capacity of, partner countries”.

This conclusion should also be read in light of the changing context, which will make it difficult to follow a similar strategy-making approach within the next months and years. First, the Government's new strategy (MKUKUTA) is now organised in clusters of poverty reduction outcomes and no longer in priority sectors (see 5.1.5). Second, the new approach foreseen for the Joint Assistance Strategy contradicts the idea of holding distinct strategic discussions with each donor.

It is also worth reflecting deeper on the reasons why EC strategy-making has not kept its promises. This has much to do with lengthy programming and commitment processes, and accumulation of funding modalities loosely connected to strategic priorities, all problems which have not been solved by the recent de-concentration process. These reasons are not specific to Tanzania, which means that similar conclusions should be encountered in other country evaluations. This is in fact the case in Honduras in 2004 (“need for a real strategy”), and Uganda in 2001 (“highly fragmented and non-transparent portfolio of projects”). These converging conclusions raise the issue of turning the conclusion into a lesson of wider interest, which the evaluation team proposes to write as follows:

*L – As long as EC country strategies are implemented in a loose and lengthy way, they are unlikely to deliver the benefits which would compensate for the transaction costs borne by the partner Government.*

#### **6.1.4. Cross-cutting issues**

In 2000, the Government's poverty reduction strategy mentioned gender, HIV/AIDS and non-state actors as important cross cutting issues in relation to poverty reduction. The Tanzania Assistance Strategy highlighted gender and environment. The EC has stated its interest in gender, environment, and non-state actors in its country strategy paper.

In several instances, efforts to mainstream cross-cutting issues have taken place at the right level (environment and budget support, gender and education, gender and roads), and significant successes have been achieved (see 5.10.1).

Sometimes a ticking-boxes approach has been adopted or no approach at all. This point is made in a recent report of the Court of Auditors on Environmental Mainstreaming. It is confirmed by the four in-depth studies conducted by the evaluation team in the road and agriculture sector.

*F - Efforts to mainstream cross-cutting issues have been very significant, and sometimes successful, albeit unsystematic*

Should this finding be judged negatively? The initially agreed judgement criterion was that the EC assesses cross-cutting impacts and manages them “where relevant”. Everything depends on what is meant by “where relevant”.

It is the understanding of the evaluation team that actual efforts towards addressing cross-cutting issues have resulted from a variety of factors like: strategic priority (e.g. NSAs, environment at regional level, environment and budget support), obvious challenges (environmental impact of the refugee problem), routine good practice (HIV/AIDS prevention during road works), and experience and motivation of Delegation staff (gender in the RUSIRM road project). The evaluation shows that the choice of areas where efforts have been made is most often due to strategic choices (PEDP, NSAs, HIV/AIDS) and sometimes to circumstantial ones (RUSIRM).

Referring to Tanzanian examples, a given cross-cutting issue in a given instance is to be considered as relevant in so far as the associated impacts:

- Can be understood and reasonably foreseen
- Will deeply affect large groups, either positively or negatively
- Are controllable.

Following this interpretation of the initially agreed criterion, EC efforts towards cross-cutting issues are to be judged positively if they concentrate on a limited number of areas where their relevance is obvious. Efforts are to be judged less positively if they are simply owing to circumstantial factors. Ticking boxes approaches should not be criticised if they are used in areas where there is obviously no challenging and solvable problems.

*C – The EC has purposely directed its efforts at areas where cross-cutting issues were particularly challenging (education, NSAs, HIV/AIDS) and this has to be praised. In other instances, the relevance of efforts (sometimes successful) are owing to circumstantial reasons, and their high priority has not been fully demonstrated.*

A number of reports end in negative statements showing that cross-cutting issues are not systematically mainstreamed, for instance: thematic gender evaluation in 2003 (“gender has been treated in a formalistic and limited way”), or the recent Court of Auditors’ report which considers that the environmental impact assessments carried out for large road investments in Tanzania were too superficial. It is the evaluation team’s opinion that the repetition of such negative judgements does not help. Mainstreaming efforts should be judged on the ground that they are relevant and effective, not on the ground that they are systematic.

## **6.2. Impact of the EC’s support**

This section focuses on impacts at country level. See examples of impact at project level in 6.4.2 and a review of available impacts information in 6.5.1.

### **6.2.1. Social and economic performances**

Tanzanian macro-economic performances have been and continue to be satisfactory. Despite adverse weather conditions and deteriorating terms of trade, GDP has been growing at an average rate of more than 4 percent. Real GDP increased by 6.7% in 2004. Inflation, which was in excess of 25 percent five years ago, has been reduced to 4.2 percent (Dec 2004). Borrowing has been reduced to comfortably sustainable levels. The balance of payments position has also improved substantially with foreign exchange reserves rising and maintained at a sustainable level. Foreign investment is now at 3% of GDP, but is still far below external assistance. Income inequalities are slightly worsening, but it must be acknowledged that Tanzania was among the leading African countries in terms of equality.

As shown in Figure 10, progress has been observed in most of the priority sectors/areas, the main concern being the quality of education.

The main noteworthy factors behind this good performance are:

- Political stability and cautious macro-economic policy

- Rapid growth of the mining industry, with gold amounting to 90% of the increase in exports between 1999 and 2004 (see Volume 2)
- Massive impact of the abolition of school fees decided in 2000 in the framework of harmonised policy dialogue (in which the EC took a significant part).

F – Overall, expected progress has occurred, the main exceptions being quality of education and, to a lesser extent, income equality.

Figure 10 - Progress towards millennium goals

	Period	Overall change	Current trend	Comments
Income poverty	1992-2001	☹	☺	Faster decrease in Dar es Salaam
Inequality	1992-2002	☹	☹	Low compared to other countries
Enrolment educ.	2000-2005	☺	☺	Removal of school fees in 2000
Teacher / pupil	2000-2005	☹	☹	
Girls in educ. (%)	1995-2005	☺	☺	
Child mortality	1999-2004	☺	☺	
HIV prevalence	2001-2003	☺	☺	Continuous worsening until 2001
Access to water	2000-2004	☺	☺	

From DFID, September 2005

### 6.2.2. Role of EC financial support

Generally positive changes can be analysed as follows:

- Over the last three fiscal years (2002/03 to 2004/05) foreign grants and loans have financed close to 45 percent of total budget expenditures (IMF 2005a). The share of foreign aid in GDP is stable around 10%.
- Domestic revenue collection has increased over the past years. Between fiscal years 1999/00 and 2004/05, tax revenue increased from 12.9 percent to 14.0 percent of GDP (IMF 2005 a and b).
- An increasing share of public expenditure has been directed towards the priority sectors identified in the Poverty Reduction Strategy. Together with a steep growth of public expenditure, this resulted in a rapid increase of public expenditure in priority sectors: from 6.1 percent to 14.8 percent of GDP between fiscal years 1999/00 and 2004/05.
- The proportion of foreign aid channelled through the national budget is 34% (2004/05). Other aid modalities are massively focused on priority sectors.

Building upon these figures, the evaluation team considers that external aid has been totally additional in terms of increasing public expenditure in priority sectors.

F – EC financial support has been additional in terms of expenditures in the priority sectors, and therefore in the results achieved.

### 6.2.3. EC contribution through individual projects

As explained in 6.5.1, available information on project impacts is relatively low, both qualitatively and quantitatively. The evaluation team therefore relies upon its own investigations in the field in this section. Four projects have been investigated, all with excellent impact records in some areas and less successful ones in others. The following lines comment upon the contribution of investigated projects to achieving impacts at national level.

The Mwanza roads project has had visible impacts at macro-level. Together with other investments (e.g. upgrading of Mwanza airport under the EC's special programme for refugee affected areas), the road project removed a key bottleneck which constrained support to refugees, trade, and growth of the mining and fishing industries.

Three other investigated projects were respectively related to feeder and local roads (RUSIRM), research and development of more productive varieties of coffee, and farmers' access to credit and advice. All three projects have impressive impact records at local and regional level, although they all also have limitations. Until now, however, none have reached the critical mass which would have made a breakthrough at national level. All three projects have a high potential in terms of learning and transferring lessons which would make a difference at macro-economic level (e.g. impact of market-friendly approaches in agriculture, or private sector capacity-building in the roadworks sector). It is the evaluation team's view that the promotion of lessons learnt was part of the project design and was subsequently assured in the case of the feeder and local roads project (RUSIRM).

*F – It is difficult to credibly trace the macro-level impact of individual EC projects, except large infrastructure investments when they removed key bottlenecks and innovative projects when the promotion of lessons learnt is part of the design.*

This finding should be read in light of the recent Diagnostic Trade Integration Survey (DTIS) for Tanzania executed under the Integrated Framework Initiative (WTO, UN, World Bank), which gives considerable prominence to transport and logistics as supply-side constraints to trade.

### 6.2.4. EC contribution to policy reforms

Some of the most impressive impacts result from a mix of large financial support and policy reforms, e.g. strong increase in school enrolment and the abolition of school fees, progress towards removing backlog maintenance of the road network and creation of the Road Fund. In both examples the EC provided substantial financial support and technical assistance, and contributed to dialogue and co-ordination.

*F – When successful, the EC's contributions to policy reforms have had a major visible impact.*

How far can the diverse impact mechanisms compare with one another?

### 6.2.5. Main impact mechanisms

The following impact mechanisms have been identified:

- Contribution to policy reforms in association with substantial financial support and technical assistance (e.g. abolition of school fees and support to primary education in 6.2.4)
- Removal of key bottlenecks (e.g. Mwanza roads project in 6.2.3)
- Promotion of lessons learnt through exemplary projects (e.g. feeder and local roads project in 6.2.3)

The above mechanisms are ranked by the evaluation team in an order which reflects their magnitude at the level of the country as a whole, and the clarity of the cause-and-effect connection with EC support.

*C – Remarkable contributions have been achieved through a mix of sector policy dialogue and substantial financial support in sectors like education and transport.*

This conclusion should be handled with care since it only covers the impact mechanisms which have been analysed in the framework of this evaluation. Before being turned into a lesson of more general value, it should be combined with learning about other mechanisms applying in other countries. For instance, macro-economic reforms or conflict-prevention are sometimes claimed to have had huge consequences on poverty, something which has not been investigated in the framework of this evaluation.

*L – Provided that the lesson is confirmed by other evaluations, it might be said that the best contribution to poverty reduction is achieved through a mix of substantial financial support and policy reforms initiated through sector policy dialogue.*

### **6.3. Policy dialogue**

This section covers policy dialogue and donor co-ordination, which are closely connected in the context of the Tanzania Assistance Strategy.

#### **6.3.1. An area of intense efforts**

Since the 1990s, Tanzania has been a forerunner in terms of harmonised dialogue among development partners. The Joint Assistance Strategy (JAS) and the many Working Groups formed in this framework are a remarkable achievement, which is positively assessed by development partners. This can be seen through continuously growing financial commitments, but also through qualitative assessments like “the system contributes to bringing development cooperation to a higher level”, “we are willing to treat Tanzania as a special case”, “the system offers the opportunity to deliver better results”, “Tanzania can be a model” (JAS Consultative Meeting, April 2005).

The EC has contributed to a large extent towards harmonised dialogue with the Tanzanian Government and all development partners. The lead that it has and is continuing to take in the various working groups and other mechanisms for dialogue with the Government shows a strong commitment to supporting the Tanzanian approach to coordination. It must be recognised that de-concentration and the associated increase in staff were pre-conditions for such an effort. As shown below, policy dialogue has led to significant achievements, which in turn can be attributed in part to de-concentration. This has been reported as perhaps the main benefit of the de-concentration reform (see 3.3.4).

*F – The EC is acknowledged to have greatly contributed towards harmonised dialogue with the Government and development partners in several sectors/areas. These achievements would not have been possible without the recent de-concentration process and the associated growth in the Delegation’s staff.*

#### **6.3.2. Overall dialogue**

In principle, the EC may take part in dialogue with the Government in three distinct arenas.

The first arena has been created through a recent change in the ACP agreement. The EC and all the EU Member States concerned are supposed to hold periodic political discussions with the Government at the level of the Ministry of Foreign Affairs. Such discussions have been initiated in many countries, but not yet in Tanzania, although a proposal was made by the missions of EU Member States.

The second arena consists of the many working groups set up under the Tanzania Assistance Strategy. The Government and the development partners have positively assessed this framework and a further step is being taken with the new Joint Assistance Strategy. Interviewees from all sides consider that the system has improved complementarity among donors and co-ordination.

A recent study by USAID shows that the system has mobilised many human and organisational resources for the Government and donors, but these are “useful transaction costs” which contribute to enhancing the quality of the strategy and to monitoring its implementation, as opposed to “useless transaction costs” linked to multiple negotiations with and multiple procedures of different donors (Frantz, 2004). Although positively assessed by development partners in general, the system has lost its momentum in areas like local government reforms, financial management and anti-corruption strategy, where important policy reforms are at stake.

Informants from the EC and donor missions consider that in order to be effective, dialogue on corruption needs to remain connected with general budget support and to take place in a third arena, i.e. the Development Cooperation Forum (DCF). The DCF is an important mechanism set up for high level dialogue under the leadership and chairmanship of the Chief Secretary in the President’s office. The DCF has, however, not been functioning as it should, due to infrequent meetings and because senior Government officials rarely attend.

*F – The Government and development partners have developed an innovative approach to policy dialogue over the past years. Although it is resource-consuming, this approach has greatly contributed towards the overall quality of the poverty reduction strategy and to monitoring its implementation. The framework has, however, failed to maintain a sufficient level of attention to policy reforms in some important areas.*

The policy dialogue framework associated with the Tanzania Assistance Strategy has been positively assessed by the Government and the development partners. The main options will be further developed in the new Joint Assistance Strategy, with a view to reducing transaction costs.

It is, however, the evaluation team's view that the policy dialogue framework should be judged on its capacity to adequately and quickly address issues that are deemed important by any of the concerned partners.

*C – The Tanzanian innovative approach to harmonised policy dialogue is unquestionably effective, but it cannot be considered as a success story until it proves to adequately and quickly address areas where important policy reforms are at stake.*

In light of this conclusion, it seems relevant to wait a few more years before learning lessons of general interest from the Tanzanian experience.

### 6.3.3. Dialogue at sector/area level

The EC has strongly contributed to policy dialogue in major sectors/areas like education (see 5.6.1), agriculture (see 5.7.1), transport (see 5.5.1), trade (see 5.8.1), public finance management (see 5.9.2), and local government reform (see 5.9.5). It has or has had the leading role in agriculture, education and transport. Interviews in the Government and development partners' missions show particularly good records in transports, education and trade.

*F – The EC has taken the lead in assisting the Government with developing sector strategies for agriculture, education and transport. In these sectors and in several other areas, the EC is acknowledged to have positively contributed towards a harmonized dialogue with the Government and development partners.*

The course of policy reforms subject to dialogue typically undergo through progress and deceleration phases, as summarised in the following lines:

- A major road sector reform was passed in 1997/1998. It was clearly connected to the dialogue conducted in the previous years, and to a significant reduction of all donors' support until the reform was launched. The reform included the setting up of an independent agency in charge of road works, the collection of resources for road maintenance and the building of a policy-making capacity at Government level. The reform has been implemented only in part (e.g. Tanroads, the newly created agency, is not fully independent), and further policy dialogue has lost its momentum, partly due to difficulties in coordinating line ministries (see 5.5).
- The abolition of school fees was decided in 2000. It was clearly connected to the dialogue conducted in the previous years, which also ended in the development of a sector strategy for basic education. In 2001 the IDA offered massive support focused on primary education only. This attracted Government efforts and donors towards primary education, but although considerable results were achieved, the progress towards sector budget support has been delayed by several years.
- Similarly, the EC has contributed towards promoting an agriculture and rural development strategy, up to the point where consensus was reached on a preliminary programme design. In parallel, several International Financial Institutions have offered massive support in the form of rural development projects. Together with a weak institutional situation on the Government's side, this has ended in a loss of momentum for a sector programme.
- The EC has played a precursory role in building Tanzanian capacity in the area of trade and regional integration, through an adequate mix of policy dialogue and technical assistance. An effective policy dialogue has emerged over the past years (see 5.8) and there has been no discernible deceleration. In this instance, achievements have been made without any connection to large financial support.

The evaluation team has carried out a comparative analysis of these four cases and found that deceleration phases were mainly explained by two reasons: (1) it has been difficult to develop policy-making approaches involving several ministries (roads, education, agriculture) and (2) progress slowed down when development partners' support was not consistently connected to policy dialogue (education, agriculture). On the contrary,

progress was made when all development partners co-ordinated in order to tie support to a policy reform (roads).

*F - Movement towards sector strategies has generally been slow, which delayed the introduction of the sector budget support. Policy dialogue has been impeded by a lack of coherence in donors' approaches to it and weak institutional situations within Government.*

Considering the experience gained in Tanzania (road sector reform, education and agriculture sector programmes), the evaluation team considers that sustainable progress in policy reforms is conditioned by the fact that large financial support remains connected to progress in policy dialogue. The EC has followed this principle consistently but the same cannot always be said of the donor community as a whole<sup>47</sup>.

*C – The EC has generally tied large financial support to progress towards policy reforms, which is an effective approach, but progress has been impeded when the whole donor community has not acted consistently. The EC's commitment to the JAS process has not always succeeded in ensuring consistency of development partners' actions.*

#### **6.3.4. Disbursement delays and funding gaps**

The majority of projects implemented during the evaluation timeframe were under the 7<sup>th</sup> and 8<sup>th</sup> EDF. In the first semester of 2005, i.e. three years after the finalisation of the CSP, all identified actions in the 9<sup>th</sup> EDF were on hold, except general budget support. Several explanatory factors have been identified. They are ranked by order of importance, according to the evaluation team's understanding of informants' comments:

- Slow pace of policy reforms
- Length of EC procedures in the case of road projects
- Difficulties in applying EC rules, e.g. contribution to basket funds in the case of support to local governments (see 5.9.5)
- Lack of Government involvement in policy dialogue, e.g. Prevention of Corruption Bureau (see 5.9.2)
- Difficulties to match Government requests, e.g. refusal of direct support to local governments (see 5.9.5).

*F - Commitments are far behind schedule, mainly for reasons of delayed reforms.*

#### **6.3.5. Progress-related financial support**

Most often, EC involvement in policy dialogue is associated with large-scale allocation of funds, trade being an exception. Financial support is connected to progress of policy reforms in two distinct ways:

- Until now, an "all-or-nothing" approach has been applied more or less in the case of sector policy reforms<sup>48</sup>. It has been highly effective in the case of road reform, although it has involved a funding gap over a period of more than one year. In theory, the "all-or-nothing" approach loses its effectiveness as soon as the funds are committed. This is what happened in practice when Tanroads was not given the level of independence initially planned (see 5.5.1).
- A more flexible approach, called the "variable tranche" mechanism, is associated with general budget support and was introduced in the fiscal year 2004/2005. Prior to the introduction of this mechanism, disbursements from committed funds had to wait until planned progress was achieved by the Government. The variable tranche amounts to about one third of the committed funds and actual disbursements depend partly on progress in public finance management and partly on achievement of performance targets in social sectors. Until now, disbursements have been limited to 75-80% of commitments under the variable tranche.

<sup>47</sup> An instance of a consistent approach of all development partners is the area of public finance management (see 5.9.2), which has led to substantial achievements, although they are not yet considered as sufficient by the development partners concerned.

<sup>48</sup> This will change with the planned 9<sup>th</sup> EDF support to education which will use a variable tranche mechanism.

This evaluation shows evidence that an “all-or-nothing” approach creates a strong financial incentive for policy reform, although one that is limited in time (case of the road sector), even though there is no indication of such strong incentive on the side of the flexible approach (no progress on the corruption issue after two years of reduced disbursements). As seen in the previous section, the “all-or-nothing” approach creates severe unpredictability, an inconvenience that has been considerably scaled down in the first years of experience with the variable tranche.

*F – An “all-or-nothing” approach to connecting financial support to policy reform has led to at least a short-term success in the road sector in the late ‘90s, but this success has not been fully sustainable over time. The more flexible “variable tranche” approach, as applied for general budget support over the last two years, is likely to be an effective alternative. Its actual effectiveness in encouraging policy reforms has, however, not yet been proved, as evidenced in the area of financial management.*

In the road and education sectors, funding gaps involved substantial opportunity costs in terms of socio-economic development. The financial support which has been retained would have generated substantial benefits in terms of poverty reduction, even in the absence of the awaited policy reform.

Moreover, the “all-or-nothing” approach collides with the Monterrey commitment to substantially scale up aid. This clash has been particularly perceptible in our interviews within the EC, where several informants are concerned by both the excessive delays in commitments and the pressure by policy-makers to spend.

In this context, it must be acknowledged that the general budget support has been the one single way to deliver funds without severe delays, while remaining tied to policy reforms to a certain extent.

*C - In the current Tanzanian context, and subject to confirmation within the next few years, general budget support and the “variable tranche” mechanism afford a good compromise between the need to increase financial aid and the principle of progress-related support.*

This conclusion probably needs to be further refined within the next few years, on the basis of evidence arising from experience over a longer time period. For instance, the role of performance indicators is currently subject to questions like: (1) should all indicators be taken into account on an annual basis, or should a longer period be considered for impact indicators, and (2) should disbursements be related to indicators in a mechanistic way or after interpretation?

It must be also mentioned that while the EC initiated the system, other development partners have expressed intentions to introduce similar mechanisms in connection with the Performance Assessment Matrix. These include Denmark, Sweden and Switzerland (interviews).

## **6.4. Funding modalities**

The evaluation provides evidence for comparing four funding modalities: projects funded under EDF-STABEX, projects funded under budget lines, basket funds, and general budget support. Sector budget support was not used in Tanzania during the period under evaluation.

### **6.4.1. Comparing modalities in terms of implementation**

Transaction costs are at their lowest with budget lines, but this simply means that there is no Government involvement. General budget support has reduced transaction costs for neither Government nor the development partners because it has involved a considerable co-ordination efforts (5.2.2). This evaluation is therefore unable to rank modalities along this criterion, although the costs have been claimed to be useful in the case of general budget support, as opposed to useless in the case of the design and implementation of hundreds of projects.

General budget support is the only modality which has ensured predictability in Tanzania over the past years. This modality is flexible by nature in the sense that allocated funds are fungible. The evaluation team lacks evidence for ranking other modalities.

In the framework of general budget support, funds are channelled through the Tanzanian public service, and partly through Tanzanian-based public procurement processes, although expenditures remain under donors’ control with other funding modalities. The difference in corruption levels between both channels is made clear by all available indicators, which means that general budget support is the modality involving the highest leakage risks.

According to the recent evaluation of general budget support in Tanzania, this modality has good records in terms of effective capacity building, sustainable country ownership and democratic accountability. In contrast, projects and especially projects funded under budget lines are disconnected from the harmonised policy dialogue, and even ignored by the Government.

Funds channelled through budget support are very much in the hands of the Government, and even in those of horizontal bodies (Ministry of Finance, President's Office). Civil society, local authorities, or line ministries tend to be less involved in comparison to other modalities.

*F - In the current Tanzanian context, general budget support is particularly good at improving predictability and country ownership, and promoting democratic accountability. In contrast, projects and basket funds are still better at preventing financial leakages and at involving civil society, but they are disconnected from the harmonised policy dialogue and oppose the principle of concentrating EC strategy.*

The evaluation team has adopted a very rough multi-criteria approach, which shows that general budget support surpasses other funding modalities more often than the contrary. The only major reservations are related to financial leakages and to the involvement of civil society.

Budget lines deserve special attention because they escape the harmonised policy dialogue which is promoted by all development partners in the context of Tanzania (5.2.4). The evaluation team understands that budget lines provide the EC with a means to operate in areas/countries where it is difficult to co-operate with the Government. However, such a need is clearly not asserted in Tanzania.

*C - In the current Tanzanian context, general budget support is a better modality than traditional ones (basket funds and projects) as regards implementation, provided that corruption is being curbed and civil society strengthened.*

If sector budget support is not mentioned, this is simply because this evaluation does not provide evidence about this modality. Basket funds have been widely used and it has been suggested to take them as precursors of sector budget support, but this option has not been retained by the evaluation team.

It might be said that the above conclusion (general budget support is a better modality) could extend to sector budget support which shares the same characteristics, i.e. on-budget funding, untargeted and linked to the discussion of specific results. This is probably true, but a proper comparison would also require ranking sector budget support against general budget support, something which cannot be substantiated in this evaluation.

#### **6.4.2. Comparing modalities in terms of alignment on strategic objectives**

By definition, EC funds channelled through general budget support follow the Government's poverty reduction pattern, which includes the reduction of vulnerability as a stated and *de facto* priority.

Yet the analysis of the portfolio of EC projects and basket funds shows that vulnerability has not been a *de facto* priority.

*F – Funds channelled through general budget support have followed a poverty reduction pattern, which is better aligned on Government priorities and puts more emphasis on vulnerability.*

In 6.1.2, it has been proposed to judge such findings on the grounds that a consistent and comprehensive approach to poverty reduction is preferable. General budget support will then be ranked as number one for this section.

#### **6.4.3. Comparing modalities in terms of capacity to achieve impact**

Previous sections have already considered the impact of EC support with some insight into the issue of funding modalities. It has been stated that impacts at national level have (or could have) been achieved through the following channels (ranked by the evaluation team):

- Contribution to policy reforms in association with large financial support and technical assistance (e.g. abolition of school fees and support to primary education in 6.2.4)
- Removal of key bottlenecks (e.g. Mwanza roads project in 6.2.3)
- Promotion of lessons learnt through exemplary projects (e.g. feeder and local roads project, see Box 6)

Through its analysis of four successful projects, the evaluation team has identified a series of factors which played an influential role in the achievement of identified positive impacts (see 1.1). Although not surprising, the lessons learnt are clear and important. Assuming that projects are well designed and properly managed, they achieve successful impacts when they are:

- Integrated into markets
- Private-sector led or private-sector friendly
- Locally owned
- Designed to ensure sustainability
- Launched in the framework of an adequate policy (at sector and/or local level)

These success factors have been more or less matched in the four projects investigated in greater depth in this evaluation, which does not mean at all that all EC-supported projects would have been that successful.

If the same financial resources were channelled through the national budget instead of EC projects, what would have happened with such success factors? Answering this question is difficult because both modalities are implemented in extremely different contexts. The above-listed success factors, when translated into the context of general budget support, would probably become:

- Close involvement of non-state actors in the design and follow-up of policy reforms in order to ensure market-friendly approaches
- Decentralisation and capacity-building at local level in order to ensure local ownership and sustainability
- Adequate sector policy reforms

The first point has been an effective component of the Government strategy over the past years. Non-state actors have played a key and direct role in designing the poverty reduction strategy, but less so in its implementation. Non-state actors are also playing a leading role in the formulation of the private-sector development strategy, which the Government identified as crucial for promoting private-sector engagement in the fight against poverty.

The second point may not have been so high on the Government agenda over the last years (see 5.9.5).

The third point applies to all funding modalities indifferently.

*F – If financial resources were channelled through general budget instead of projects there is no major reason why impacts should have been reduced (assuming equal protection against financial leakages). The same factors which explain the successful impacts of projects are also at work in the Government's strategy<sup>49</sup>, possibly with the exception of local ownership.*

#### **6.4.4. Selecting and combining modalities**

This evaluation has reviewed a number of specific uses of funding modalities in various contexts:

- Capacity-building projects paving the way for policy reforms, with two success stories in the areas of trade (5.8) and non-state actors (5.9.4), and a less successful experience in the case of support for the Prevention of Corruption Bureau (5.9.2).
- Basket funds as a way to cope with specific issues as in the case of the Muafaka political agreement in Zanzibar (5.9.3).
- Basket funds paving the way for sector budget support as in the case of education (5.6).

*F - Projects or basket funds have fulfilled specific functions which were deemed useful at specific stages or in specific compartments of the policy reform processes.*

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<sup>49</sup> The evaluation team assesses this finding as rather weak, considering the small evidence base and the complicated chain of reasoning.

The analysis suggests that the value of a given funding modality depends on the context, which suggests, in turn, that the choice of funding modalities may not simply be a question of selecting the one best approach.

*C – In several instances, a particular mix or a particular sequence of funding modalities have proved to be the adequate choice rather than selecting just one best modality.*

## **6.5. Learning from impact information**

### **6.5.1. Generating impact information**

The inventory of the interventions covered by this evaluation has been complemented by a review of impact information connected to EC support (see 5.4). Such information is available in three forms:

- ROM (Result Oriented Monitoring) reports (7% of the support has been covered in financial terms)
- Evaluation reports (19% of the support has been covered in financial terms)
- Poverty reduction indicators monitored in connection to general budget support.

An analysis of the quality of information shows that in both instances, impacts are most often extrapolated from an observation of direct short-term effects on end users, rather than being subject to an adequate observation in the field and a contribution analysis.

The information system associated with general budget support does not deliver expected data in time, and has not yet been subject to any interpretation in terms of contribution of public expenditures in priority sectors. Tanzania lags well behind the leaders in terms of monitoring poverty reduction indicators.

Over the past years the EC has been among the most active promoters of impact indicators, for instance through the variable tranche mechanism (see 5.2.5) or in the area of quality in education (see 5.6.1.).

*F - Impact information is subject to considerable efforts and expectations on the EC side, and is available from three different channels (indicators, ROM and evaluations), but its punctuality, quality and relevance generally remain poor.*

Even this evaluation has depended on few available evaluation reports, monitoring reports and statistics, and impact-based indicators were not available. This difficulty was anticipated at the beginning of the work, which is why several questions and criteria were specifically designed in order to address impact-related issues.

It must be stressed that impact-based indicators are now being developed under the new Government's poverty-reduction strategy (MKUKUTA).

### **6.5.2. Learning from impact information**

Several arenas have been created where lessons learnt from impact information can be discussed. Examples are: performance assessment framework and reviews of the Poverty Reduction Strategy, mid-term review of the CSP, and evaluation of the general budget support.

Impact information has not yet been discussed for various reasons:

- Discussion of impact indicators has been postponed because the information was not delivered in time (case of the general budget support, see 5.2.1)
- Evaluation reports<sup>50</sup> are discussed, but they convey little information on impacts (case of education)
- Discussion of ROM reports focusing on management and short-term results mainly
- Other sources like studies, research work or other donors' evaluations are frequently quoted and used (as in the recent study of progress towards Millenium goals by DFID).

The EC is not reported to have strongly promoted the use of impact information .

<sup>50</sup> Including the joint evaluation of general budget support.

*F – When available, impact information has not been systematically used in the appropriate arenas.*

In the course of the evaluation, many negative judgements on the lack of impact indicators were encountered. Building on the experience of Northern countries, the evaluation team is very much concerned about (1) the fact that impact information cannot be restricted to indicators only, and (2) the fact that expectations concerning impact information are often excessive. A reasonable judgement criterion could build upon the concept of “accountability for learning”. Expressed in a simple way, this concept means that development partners should be accountable for discussing impact information, learning lessons and taking action, rather than just showing good performance indicators. Using such a criterion leads to a judgement that, although still negative, is more qualified.

*C – The EC has actively promoted the development of impact information, with little success up to now. Comparatively, efforts towards learning from available impact information have not been sufficient.*

Other EC evaluation reports are in line with this conclusion, e.g. sector transport evaluation in 2004 (“outcomes and impacts have not been systematically monitored and little use has been made of evaluation”).

This conclusion is to be read in light of current efforts of the EC Delegation to promote learning, as exemplified by the following sentence: “We are moving to sector budget support, all being well, on the basis that without structured dialogue at sector level it is very difficult to see the lessons of monitoring and evaluation fed into reform. This was one experience in the education sector.” (informant in the Delegation).

There are also views in the EC Delegation that the learning process should take place increasingly through Government’s accountability to the Parliament, civil society organisations, and ultimately citizens, rather than to development partners.

## 7. CONCLUSIONS

This section summarises conclusions and lessons which have been introduced in the previous sections. Conclusions are clustered in five groups corresponding to the five sections of the overall assessment.

Each conclusion is given a level of priority from high [XXX] to low [X], which reflects the current views of the evaluation team about the potential to derive useful recommendations or lessons. If accountability were considered, the ranking of conclusions would be slightly different. The highest level of priority would be given to 2, 4, 5, 6, and 10.

The strength of conclusions is also assessed on a three-tiered scale: normal [XXX], partly limited [XX], and limited [X]. The evaluation team's self assessment is that none of the conclusions is affected by severe methodological limitations. Some limitations are however worth mentioning on conclusions 2, 3, 4, 9, 10 and 12. These limitations are described and explained in the methodological appendix (Volume 2, Section 3.5).

### 7.1. EC strategy

1	Priority X	Strength XXX	Origin: 6.1.1, 5.1.2, 5.8.1	Recommendation: A1
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The stated EC strategy was aligned by design on the Government's Poverty Reduction Strategy, both in terms of objectives and priority sectors/areas. The bulk of EC support was therefore oriented towards needs and challenges that had been identified through a legitimate process. On both sides, *de facto* strategies remained aligned in most instances. The EC has, however, played a valuable precursory role in an area like trade, which was not at the top of the national agenda and has subsequently been prioritised by the Government.

2	Priority XXX	Strength XX	Origin: 6.1.2, 5.1.3	Recommendation: A2, A3, B1, B2, B3
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EC priorities were formerly focused on economic growth and social development. In 2001 the EC introduced poverty reduction as a new overarching goal appended to a basically unchanged strategic approach. The evaluation team considers that the overall objective of poverty reduction has not been clarified enough. With a view to more in-depth reflection on this issue, the EC support has been broken down into five chains of impacts called "paths towards poverty reduction".

From this analysis, it appears that a high *de facto* priority has been given to "conducive economic environment", "growth of activities where the poor engage" and "equitable access to basic services". Low or very low priority has been given to "improving basic services" and "reducing vulnerability". The latter dimension has, however, been paid closer attention on the Government's side. There are indications that equity in access to basic services has not been mainstreamed systematically, for instance in the areas of basic education and water supply.

The above priorities have nevertheless remained implicit. By not making its approach to poverty reduction explicit, the EC cannot explain and justify why a low or very low priority is given to the issues of equity and vulnerability.

3	Priority XXX	Strength XX	Origin: 6.1.3, 5.1.4	Recommendation: C1, C2
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Leaving aside general budget support and harmonised policy dialogue, the EC's approach to strategy-making has been disappointing. It did not deliver the expected benefits in terms of concentration, coherence and predictability, which would have compensated for the transaction costs borne by the Government in dealing with multiple donors' strategy-making processes at multiple points in time.

4	Priority X	Strength XX	Origin: 6.1.4	Recommendation: /
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In several instances, efforts to mainstream cross-cutting issues have taken place at the right level (environment and budget support, gender and education, gender and roads), and significant successes have been achieved. The EC has purposely directed its efforts towards areas where cross-cutting issues were particularly challenging and this has to be praised. In other instances, the efforts (sometimes successful) owe to circumstantial factors, or to routinely applied procedures, and their high priority has not been fully demonstrated.

## 7.2. Impact of EC support

5	Priority X	Strength XXX	Origin: 6.2.1, 2.2, 2.3	Recommendation: /
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At the level of the country as a whole, most expected progress has occurred, with exceptions in two areas: quality of education, and corruption. Significant progress has been made in areas like macro-economic stability, enrolment in education, health and access to water.

6	Priority XX	Strength XXX	Origin: 5.7, 6.2.2, 6.2.4	Recommendation: A1
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The EC has contributed to this progress in many ways. First, the general budget support has been additional in terms of expenditures in the priority sectors, and therefore in the results achieved.

Second, remarkable contributions have been achieved through a mix of sector policy dialogue and substantial financial support in sectors like education and transport<sup>51</sup>. Some projects have also achieved impressive impacts, although at a lower scale, for instance for farmers' income in the tea/coffee growing areas.

7	Priority XXX	Strength XXX	Origin: 5.5	Recommendation: /
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The evaluation has paid special attention to the impact of EC-supported road investments on poverty reduction. An in-depth field study has identified large impacts of road investments in terms of poverty reduction, especially through "equitable access to basic services". Individual road projects are, however, insufficient for achieving such impacts, which only stem from a coherent road network including well-maintained trunk, feeder and local roads.

## 7.3. Policy dialogue

8	Priority XXX	Strength XXX	Origin: 6.3.1, 6.3.3, 5.5.1, 5.6.1, 5.7.1., 5.8.1, 5.9.2, 5.9.5	Recommendation: A1, B2, C2
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The Tanzanian innovative approach to harmonised policy dialogue is unquestionably effective, but it is still too early to qualify it as a success story.

In this framework, the EC Delegation has made important contributions. It has taken the lead in assisting the Government in developing sector strategies and sector budget support for agriculture, education, roads and trade. In these sectors and in several other areas, the EC Delegation shows a strong commitment in supporting the Tanzanian approach to coordination. These achievements could not have been made without the recent de-concentration process and the associated growth in the Delegation's staff.

9	Priority XXX	Strength XX	Origin: 6.3.3, 5.6.1, 5.7.1.	Recommendation: B3, D1
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The movement towards sector policy reforms has, however, generally been slow, which delayed the introduction of the sector budget support. Effective policy dialogue has been impeded by weak institutional

<sup>51</sup> Although the pace of policy reforms has decelerated during the last years in the road sector

frameworks within the Government. Although the EC has wisely connected its large financial support to progress towards policy reforms, its commitment to the JAS process has not always succeeded in ensuring consistency of development partners' actions. This has resulted in making dialogue under-effective in areas like education and agriculture.

<b>10</b>	Priority XXX	Strength XX	Origin: 6.3.4, 5.5.1, 5.6.1, 5.7	Recommendation: C3
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Due to slow progress in policy dialogue, a part of the support has been delayed. This is partly due to the fact that financial support and policy reform have often been connected in an “all-or-nothing” way<sup>52</sup>. Such an approach has led to at least a short-term success in reforming the road sector in the late 1990s, but the success was limited in the longer term. In several instances the financial support was interrupted, although the retained aid could have generated substantial benefits in terms of poverty reduction, even in the absence of the awaited policy reform. Moreover, the “all-or-nothing” approach is contrary to the willingness of development partners, and the EC in particular, to significantly increase their financial support.

<b>11</b>	Priority XXX	Strength XXX	Origin: 6.3.5, 5.2.5, 5.9.2	Recommendation: C3
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The more flexible approach of “variable tranche”, as applied to general budget support over the last two years, is likely to be an effective alternative. However, its actual effectiveness in encouraging policy reforms has not yet been proved, as evidenced in the area of financial management.

#### 7.4. Funding modalities

The reader needs to keep in mind that the scope of this evaluation did not include any sector budget support, which means that conclusions could not cover this modality.

<b>12</b>	Priority XXX	Strength XX	Origin: 5.2.2, 5.2.3, 5.2.4, 5.2.6, 6.4.3	Recommendation: C2, E1
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There is a consensus between the Government and the development partners towards developing budget support (either general or sector) at the expense of traditional funding modalities like basket funds<sup>53</sup> and projects. In the case of Tanzania, this evaluation confirms that general budget support has been the best funding modality in most respects, and particularly as regards improving predictability, Government ownership, and promoting democratic accountability.

General budget support has had an equal or even better potential to contribute to poverty reduction. In addition to a better alignment of general budget support on Government's priorities, this conclusion builds upon a comparative analysis of several factors contributing to poverty reduction, which have been identified through this evaluation.

In the current Tanzanian context, and subject to confirmation within the next few years, general budget support and the “variable tranche” mechanism offer a good compromise between the need to increase financial aid and the principle of progress-related support.

<b>13</b>	Priority XXX	Strength XXX	Origin: 5.1.4, 5.2.4, 6.4.1	Recommendation: E1
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On the other hand, projects and basket funds are still better at preventing financial leakages, and at involving civil society<sup>54</sup>. Stand-alone projects nevertheless have three major limitations: (1) they are disconnected from

<sup>52</sup> This “all-or-nothing” approach will progressively be phased out with the use of variable tranche mechanisms for disbursing an increased proportion of funds (general budget support and planned 9<sup>th</sup> EDF support to education).

<sup>53</sup> Most operations co-funded with other development partners were launched under Commission guidelines describing the modality as “common pool funds” in a relatively restricted way. The attitude of EC Headquarters has recently evolved towards a more open framework, which now tends to blur the border between sector budget support and basket funds. The encompassing term of joint management operations is therefore increasingly used.

<sup>54</sup> This conclusion is specific to Tanzania, and to the evaluated period. It should not be generalised without further study

the harmonised policy dialogue, (2) they may attract limited human resources away from strategic priorities, and (3) they depend on wider policy reforms and local integrated development in order to fully achieve their potential impacts.

14	Priority XX	Strength XXX	Origin: 6.4.4	Recommendation: B2, B3, E3
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The above conclusions need to be qualified in the sense that real-life choices are not so much a matter of selecting one best modality, as of setting up an adequate mix and/or sequence of funding modalities.

### 7.5. Learning from impact information

15	Priority X	Strength XXX	Origin: 6.5.1	Recommendation: E2
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Impact information is subject to considerable efforts and expectations from the EC's side, and is available from three different channels (indicators, result-oriented monitoring and evaluations). Although it is considered as very useful, the system does not deliver impact information with a satisfactory level of punctuality, quality and relevance. In particular, the poverty monitoring system is still unable to deliver adequate information.

16	Priority X	Strength XXX	Origin: 6.5.2	Recommendation: E2
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Comparatively, efforts towards learning from available impact information have not been sufficient.

#### Box 9 – Lessons learnt and/or confirmed

This evaluation has identified impressive impacts of road investments in terms of poverty reduction, especially through “equitable access to basic services”. Individual road projects are, however, insufficient for achieving such impacts, which stem only from a coherent road network including well-maintained trunk, feeder and local roads (Box 6).

As long as EC country strategies are implemented in a loose and lengthy way, they are unlikely to deliver the benefits which would compensate for the transaction costs borne by the Government that has to deal with multiple donors' strategy-making processes at multiple points in time (6.1.3, 5.1.4). This lesson has already been learnt through other country-level evaluations and is confirmed in the case of Tanzania.

The best contribution to poverty reduction is achieved through a mix of substantial financial support and policy reforms initiated through sector policy dialogue (6.2.5). This lesson warrants confirmation through further evaluations.

## 8. RECOMMENDATIONS

Recommendations are clustered in four main areas: concentration, governance, future challenges and funding modalities. A degree of priority is assessed for each recommendation on a high (XXX) to low (X) scale.

Each recommendation is targeted at one of the following levels:

- IMP, i.e. EC Delegation and headquarter services in charge of implementation
- STR, i.e. EC Delegation and headquarter services in charge of designing the next strategy paper in cooperation with the Government
- GUI, i.e. Headquarters services providing technical and administrative support and guidance to Delegations

### 8.1. Adopt a new approach to concentration

The EC's approach to strategy-making included a concentration on two sectors: roads and education. This approach has not prevented its efforts from spreading over virtually all sectors (Figure 3), so that ideally another approach would need to be taken in the design of the next strategy paper. However, the 10<sup>th</sup> EDF Programming Guidelines reiterate the obligation to select focal areas among "the nine concentration areas mentioned in the European Consensus"<sup>55</sup>. This evaluation does not suggest any change in the current focal sectors where the EC's comparative advantages are well established (see 5.3.2).

A1	Priority: X	Level: STR	<b>Concentrate funds on road network and basic education</b>
<p><b>Operational application:</b> Subject to a verification of complementarity among donors in the JAS harmonised framework, the next strategy paper should concentrate the EC's financial support in two areas where comparative advantages are well established, i.e.</p> <ul style="list-style-type: none"> <li>• Infrastructure and transport, and especially the road network</li> <li>• Basic education</li> </ul>			

The evaluation team however considers that the concentration of funds is a principle of lesser importance since the part of the financial support to be concentrated has been and will be shrinking. First, a large part of the funds is channelled through General Budget Support, a funding modality that is unlikely to diminish. Second, the EC admits that up to 15% of funds could be allocated to non focal activities, which is the counterpart of the blossoming of multiple centralised activities like global initiatives, thematic facilities, and budget lines.

In order to actually optimise the use of limited human resources, a new approach to concentration should be developed. Considering that the principle of fund concentration has not been effective, it is proposed to adopt an outcome-based approach to concentration. This new approach would be in line with the poverty-reduction outcomes highlighted in the NSGRP<sup>56</sup>.

<sup>55</sup> Potential concentration areas according to the European Consensus: Governance and support for economic and institutional reforms; Trade and regional integration; Infrastructure and transport; Water and energy; Social cohesion and employment; Human and social development; Rural development, territorial planning, agriculture and food security; The environment and sustainable management of natural resources; Prevention of conflicts and of state fragility.

<sup>56</sup> Poverty reduction outcomes according to the NSGRP: Economic growth factors (human, physical, and technological capital, private sector development, domestic trade, exports, FDI); Broad-based growth (access to productive assets, and reduction of geographical economic disparities); Equity (equal and universal access to basic services); Disaster preparedness; Addressing vulnerability; Quality of life. Governance and accountability are also called outcomes, but they are considered to be a prerequisite for all the above-mentioned outcomes.

<b>A2</b>	Priority: XXX	Level: STR	<b>Concentrate efforts on access to markets and equitable access to basic services</b>
<p><b>Operational application:</b> In addition to concentrating funds in two sectors, the next strategy paper should concentrate EC efforts on two priority outcomes. The concentration of efforts should apply to human resources, technical assistance, analyses, inputs into policy dialogue, performance target setting, monitoring and evaluation.</p> <p>Priority outcomes should be selected among the poverty-reduction outcomes of the NSGRP. Subject to a verification of complementarity among donors in the JAS harmonised framework, it is recommended that the EC concentrate on the two following outcomes:</p> <ul style="list-style-type: none"> <li>• Economic growth factors, and especially access to markets</li> <li>• Equity, i.e. equal and universal access to basic services</li> </ul>			

This dual approach to concentration (sectors + outcomes) is innovative. It is exemplified in Box 10 so as to explain its feasibility. Figure 11 also provides the reader with a way to rapidly understand (and explain) the recommended approach.

Although it is assumed to be compatible with EC rules, procedural problems may have to be solved, and this requires the innovation to be actively supported by EC services at headquarter level.

<b>A3</b>	Priority: XX	Level: HDQ	<b>Support an innovative outcome-based approach to strategy-making</b>
<p><b>Operational application:</b> EC headquarter services in charge of enforcing the 10th EDF Programming Guidelines should actively support the innovative dual approach to concentration (sector + outcome). They should monitor the consequences of such an innovation, check that lessons are properly learnt, and circulate the lessons learnt.</p>			

## 8.2. Prioritise governance as a cross-cutting issue

Governance is seen as an “outcome” in the NSGRP, but it does not stand at the same level as other poverty-reduction outcomes. In fact, it is considered to be a prerequisite to all other outcomes<sup>57</sup>. The EC should therefore mainstream governance in all its activities. A selection process that ended in over- or under-weighting governance would be meaningless<sup>58</sup>.

<b>B1</b>	Priority: X	Level: STR	<b>Prioritise governance as a cross-cutting issue</b>
<p><b>Operational application:</b> In the next strategy paper, governance should be given the status of a cross-cutting issue, and be stated as a top priority, especially as regards the fight against corruption and support to non-state actors and local authorities.</p>			

As a consequence of this approach, the EC Delegation should devote the appropriate organisational and human resources in order to ensure that governance is constantly close to the top of the agenda of all staff members.

<sup>57</sup> See NSGRP, p 27, figure 4.1

<sup>58</sup> This point echoes the dissatisfaction expressed by a participant in the seminar where an earlier version of this report was discussed. This evaluation was initially meant to investigate the issue of governance from a cross-cutting standpoint (How successful has the EC been in contributing to the promotion of good governance within the areas it has supported?). Eventually, the evaluation team was only able to investigate projects and programmes primarily focused on governance. Due to this limitation, only a small amount of expenditures and an even smaller number of results were recorded, which does not pay full tribute to the efforts of the EC Delegation in the area of governance.

<b>B2</b>	Priority: XXX	Level: IMP	<b>Mainstream governance</b>
<b>Operational application:</b> The EC Delegation should constantly screen its activities in order to identify challenging issues in the area of governance. Priority actions should be periodically selected at the level of the Head of Delegation, e.g. carrying out specific analyses, providing technical assistance, building Tanzanian actors' capacity, launching pilots, making high-level inputs into policy dialogue, setting up performance targets, etc.			

The recommended approach to governance is symbolised by the diagonal arrow in Figure 11.

### 8.3. Address future challenges

This report shows a 6-year time-lag between the design of the previous strategy paper and its implementation. This raises doubts about the utility of the whole process, especially as regards foreseeing and addressing future challenges. Since it was not connected to timely strategic thinking, the previous exercise could be understood as a ritual prerequisite for programming funds<sup>59</sup>.

This has not prevented the EC from being forward-looking and addressing cutting-edge issues, for example in the area of trade when it successfully paved the way for policy dialogue and future policy reforms (see 5.8.1). It is therefore both feasible and recommended to highlight a few cutting-edge issues in the next strategy paper.

<b>C1</b>	Priority: XX	Level: STR	<b>Highlight two cutting-edge issues: technical barriers to trade and vulnerability</b>
<b>Operational application:</b> The next strategy paper should identify several future challenges which do not yet lend themselves to selection as a priority sector or priority outcome. In agreement with concerned development partners, the EC should highlight the following issues:			
<ul style="list-style-type: none"> <li>• Technical barriers to trade, potentially a priority sector in the future</li> <li>• Vulnerability<sup>60</sup>, potentially a priority outcome in the future<sup>61</sup>.</li> </ul>			
In order to tackle such cutting-edge issues, the strategy paper should refer to the successful approach adopted in the trade sector in the last years, i.e. a mix of policy dialogue, analysis, technical assistance, plus the building of a specific capacity within the EC Delegation and assistance to building Government's capacity, where relevant.			

The two proposals related to cutting-edge issues are also shown in Box 10 and Figure 11.

Even if future challenges are highlighted in the next strategy paper, the fact remains that the development context will continue to evolve in a fast and partly unpredictable way over the next years, entailing a risk that challenges foreseen in 2007 become outdated in 2010, for example. Cutting-edge issues should therefore be reconsidered periodically.

<sup>59</sup> This was bluntly expressed by one of the participants in the discussion seminar: "nobody cares about the strategy once the NIP has been signed".

<sup>60</sup> See definition in 5.1.3

<sup>61</sup> Vulnerability can be considered as a future challenge as far as the EC support to Tanzania is concerned since the issue has not been high on the agenda of the Delegation up to now. However, vulnerability is already a priority for the Government (see Figure 5) and for the EC at global level, as can be seen through the Communication of the Commission (12 October 2005 - 'EU Strategy for Africa: Towards a Euro-African pact to accelerate Africa's development'), which states that 'the EU will help making basic services available for the poorest people in Africa, contributing to the establishment of a social safety net for the most vulnerable'.

<b>C2</b>	Priority: X	Level: IMP	<b>Periodically reflect on cutting-edge issues with development partners</b>
<b>Operational application:</b> The EC Delegation should reconsider the selected cutting-edge issues every two years, on the basis of a renewed analysis of future challenges. Such an analysis should preferably involve the Government and interested development partners, at least EU Member State missions.			

#### 8.4. Develop budget support

This evaluation shows that the predictability of disbursements has sometimes been undermined by procedural problems, especially in the case of basket funds, but these problems seem to have been sorted out recently.

The major problem with predictability has been the use of an all-or-nothing approach for relating financial support and progress to policy reforms. This approach has led to significant disbursement delays in sectors like roads and education. Comparatively, GBS has been the most predictable funding modality and the only channel through which large financial support has been disbursed in time. The associated variable tranche system provides the EC with a flexible approach to relating financial support and progress to policy reforms. However, as far as the evaluation period is concerned, this system has not led to an effective policy dialogue on anti-corruption issues.

These conclusions apply to general budget support only, since sector budget support was not observable in the framework of this evaluation. Sector budget support is nevertheless a modality which has to be considered during the next years and which is assumed to have similar advantages in terms of predictability.

<b>D1</b>	Priority: XXX	Level: STR	<b>Increase the share of budget support (either sector or general)</b>
<b>Operational application:</b> The EC should increase the share of budget support (at either sector or general level). In connection to this move, the EC Delegation should maintain, and even strengthen, its request for an effective and high-level dialogue on governance issues like anti-corruption, strengthening local governments' capacity, and increasing the role of non-state actors.			

The evaluation concludes that sector policy reforms have been successfully fostered when all development partners acted consistently, and vice-versa (see 6.3.3). Coordination is even more necessary in the instance of flexible progress-related approaches like the variable tranche, which is intrinsically weaker in terms of incentives.

<b>D2</b>	Priority: XXX	Level: IMP	<b>Coordinate with development partners on progress-related mechanisms</b>
<b>Operational application:</b> The EC should continue to promote flexible progress-related mechanisms similar to the "variable tranche", especially among EU Member States. As far as possible, the EC Delegation should coordinate with other donors in order to harmonise the assessment and evaluation of progress towards policy reforms, and eventually to harmonise responses in terms of financial support.			

<b>D3</b>	Priority: XX	Level: IMP	<b>Promote learning from impact information</b>
<b>Operational application:</b> In connection with the increasing role of budget support, the EC should continue to require the setting and monitoring of appropriately quantified performance targets. This requirement should, however, become part of a wider approach to gathering impact information. The approach should encompass indicators, evaluations, monitoring, research, studies and statistics. In addition to the mechanistic use of indicators in the calculation of disbursements, the EC should promote actual learning from existing impact information.			

Developing budget support does not mean that the project modality should be avoided. On the contrary, the whole range of projects (EDF / budget lines, simple / sector-wide basket funds) should be considered when relevant.

<b>D4</b>	Priority: X	Level: IMP	<b>Use the project modality when justified</b>
<p><b>Operational application:</b> The EC Delegation should rely upon projects (either EDF or budget lines; either simple or basket funds) when relevant, for instance:</p> <ul style="list-style-type: none"> <li>• in order to open pathways into new areas of cooperation, especially in relation to cutting-edge issues</li> <li>• in order to strengthen the capacity of the Government, e.g. through a contribution to an extended basket fund supporting public management reforms</li> <li>• in order to strengthen the capacity of Non State Actors</li> <li>• in order to pave the way towards sector budget support.</li> </ul> <p>As far as possible, the EC Delegation should integrate its projects into a long-term vision involving a move towards other funding modalities.</p>			

## Box 10 – An image of the next CSP

This box is not part of the evaluation team's recommendations, but it provides an image of what the next CSP could look like if the above recommendations were adopted.

**Access to markets** (*priority outcome 1*)

Coherent and routinely maintained road network

- Roads selected as a focal sector (*focal sector 1*) - shift to an untargeted SBS when possible, large trunk roads projects and support to the road fund meanwhile
- Promotion and follow-up of adequate performance targets in GBS
- Contribution to sector policy dialogue with a leading role
- Technical assistance projects, pilot projects

Removal of technical barriers to trade (*cutting edge issue 1*)

- Pilot projects, bottleneck removal projects, technical assistance projects
- Bringing the issue into policy dialogue in relevant sectors, particularly agriculture
- Pilot basket fund if possible

Others

- Continued support to building Government's capacity in terms of negotiating trade agreements
- Continued support to regional economic integration
- Improved coordination with EIB's loans to private sector development

**Equal and universal access to public services** (*priority outcome 2*)

Access to quality basic education in less favoured areas

- Education selected as a focal sector (*focal sector 2*) - Shift to an untargeted SBS when possible, continuation and improvement of the current basket fund mechanism meanwhile
- Promotion and follow-up of equity targets in GBS and SBS (high quality basic education in the poorest area). Mainstreaming of equity in monitoring and evaluation.
- Contribution to sector policy dialogue
- Technical assistance projects, pilot projects

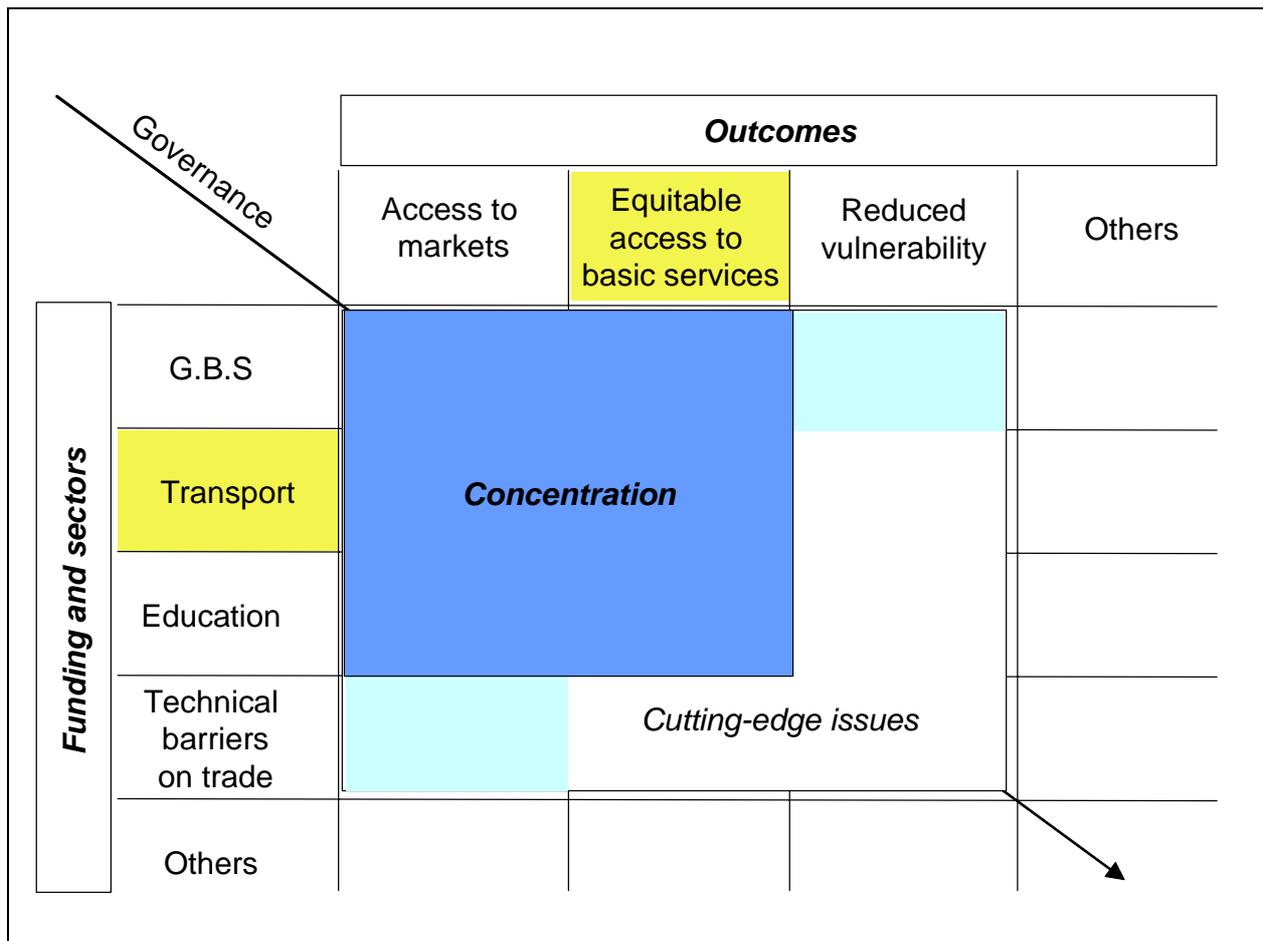
Safety nets for the most vulnerable (*cutting edge issue 2*)

- Pilot projects, technical assistance projects, capacity building at all levels (Government, local authorities, Civil society organisations)
- Bringing the issue into policy dialogue in relevant sectors
- Pilot basket fund if possible

Others

- Continued analysis and mainstreaming of the impact of the road policy on the access to basic services in poor areas
- Continued contribution to a specific basket fund on local capacity building, further efforts to convert it into an untargeted decentralisation budget support
- Continued contribution to building non state actors capacity
- Contribution to policy dialogue on decentralisation and non state actors, promotion and follow-up of corresponding performance targets in GBS

Figure 11 - An innovative approach to concentration



*Yellow boxes suggest sectors / outcomes where the EC could take the lead of donor coordination*