

# TOWARDS A GREATER USE OF COUNTRY SYSTEMS IN AFRICA: RECENT TRENDS AND APPROACHES

## TANZANIA CASE STUDY



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# ACRONYMS AND ABBREVIATIONS

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AfDB	African Development Bank
AMP	Aid Management Platform
BS	budget support
CABRI	Collaborative Africa Budget Reform Initiative
CAG	Controller and Auditor General
CBF	common basket funding
CIDA	Canadian International Development Agency
DFID	Department for International Development
EU	European Union
FRA	fiduciary risk assessment
GBS	general budget support
GoT	government of Tanzania
JAST	Joint Assistance Strategy for Tanzania
LGA	local government authority
LGRP	Local Government Reform Programme
MFAF	Ministry for Foreign Affairs of Finland
MoEVT	Ministry of Education and Vocational Training
MoF	Ministry of Finance
MoFEA	Ministry of Finance and Economic Affairs
MTEF	medium-term expenditure framework
NGO	non-governmental organisation
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
PEFA	Public Expenditure and Financial Accountability (Assessment)
PFM	public financial management
PFMRP	Public Financial Management Reform Programme
PIU	project implementation unit
PPRA	Public Procurement Regulatory Authority
SBS	sector budget support
SEDP	Secondary Education Development Programme
SME	small and medium enterprises
UK	United Kingdom
USAID	United States Agency for International Development
USD	United States Dollar

The government of Tanzania has increased the use of country systems by having a clear policy on overseas development assistance.

## EXECUTIVE SUMMARY

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Tanzania has experienced a relatively high use of government systems, as funds for budget support and basket funds are disbursed through the Treasury, with budget support funds using all aspects of the Tanzanian government's public financial management (PFM) systems, and basket funds using designated accounts, with funds then transferred to the Treasury, although these funds are separately identifiable in the development budget. As a result, funding for these aid modalities is reflected in the government plan and budget, while disbursement, accounting, internal audit, reporting and oversight systems of the government are used.

Projects with non-governmental recipients do not use country systems, although information on such projects is reported to the Ministry of Finance (MoF) through the aid management platform used by most donors. Although there are still projects that operate outside of government systems, the MoF reports that the majority are on-budget and often use the Controller and Auditor General (CAG) for auditing even if Treasury systems are not used.

There is still considerable employment of safeguards when using country systems, however, ranging from the use of designated holding accounts before transferring funds into the single Treasury account, funds having separate budget codes, additional reporting requirements, additional audits and the establishment of project co-ordination units.

The government of Tanzania (GoT) has increased the use of country systems by having a clear policy on overseas development assistance, which promotes the use of budget support through the development of an aid management system that allows donors to input aid commitments and system-strengthening in key areas of PFM.

The main incentives for donors to use government systems come from headquarters policy on the use of country systems, through requirements to align with international aid-effectiveness commitments and the Joint Assistance Strategy for Tanzania, which commits donors to the use of country systems in line with government policy. In addition, donors have judged fiduciary risk as being at a reasonable level and not outweighing the benefits of using country systems, while the main oversight institutions in Tanzania are perceived to work effectively.

There has been a significant reduction in the use of project implementation units (PIUs) in Tanzania, as a result of government policy that has aimed at their elimination and donors adhering to the Paris Declaration commitments and instituting policies not to use them. Government staff now manage aid programmes, or secretariats (with additional staff) are used. Such units differ from traditional PIUs in that they manage and co-ordinate activities but do not implement them. A few traditional PIUs still remain.

There are mixed views as to how effective using MoF staff or establishing secretariats is in comparison to PIUs. The central government believes that using existing line ministry staff to co-ordinate and manage donor aid works well, as this creates ownership and sustainability. Line ministry staff, however, perceive this to be an additional burden,

as staff resources are scarce and already overstretched. While many donors think that PIUs might be useful in ensuring that projects move forward quickly, they acknowledge a trade-off. PIUs do not build government capacity and are not sustainable, but the alternative is slower progress in terms of implementation and results.

In order to increase the use of country systems and to address current donor concerns over their use, there is a need for the GoT to address issues with PFM systems and capacity. It is important for the government to continue to ensure that weaknesses in core PFM functions are dealt with, in order for donors to remain confident that there is low risk in using country systems and for the increasing risk-aversion experienced by many donor governments to be addressed. Government capacity also needs to be enhanced in order to ensure sound management of donor funds that flow through country systems, so that parallel co-ordination units or secretariats do not need to be put in place to give donors confidence that funds will be managed well. Donors, themselves, need to ensure that the government is informed of commitments and disbursements in a timely and accurate manner (so that aid can at least be on plan even if it is not disbursed through Treasury systems) and, where possible, that parallel systems are not established and that government systems are used whenever feasible.

**PIUs do not build government capacity and are not sustainable, but the alternative is slower progress in terms of implementation and results.**





# INTRODUCTION

This report was prepared by Ann Bartholomew and presents the findings from the Tanzania case study of the CABRI report: *Towards a greater use of country systems in Africa: Recent trends and approaches (2014)*. The objective of the overall study is to increase the knowledge of CABRI members (and other African countries) of the different practices of the main donors in Africa, in order to strengthen their approach to the use of country systems and, potentially, their bargaining positions, thereby promoting the use of country systems.

Fieldwork was undertaken in Dar-es-Salaam from 13–17 May 2013. Meetings were held with key informants from the government of Tanzania (GoT) (the Ministry of Finance, Ministry of Education and Vocational Training and Ministry of Health and Social Welfare) and selected donors (the African Development Bank, the World Bank, USAID, DFID and CIDA).

Figure 1: Use of country systems research scope



This report focuses on two key areas: the use of country systems in Tanzania; and the use and impact of project implementation units (PIUs). The country research framework is outlined in Annex 1, and a summary of the research scope is provided in Figure 1.

This report begins by examining the history of the use of country systems in Tanzania, country public financial management (PFM) systems, the actual use in practice of country systems and the use of budget support and other aid modalities. The report then examines country-level awareness of and adherence to donor policy frameworks and processes related to country systems and country policy frameworks and processes. Risk as a factor at country level, incentives to use country systems, capacity at country level and barriers and enablers that have an impact on the use of national systems are also assessed. Finally, PIUs are discussed in terms of their use and impact in Tanzania.

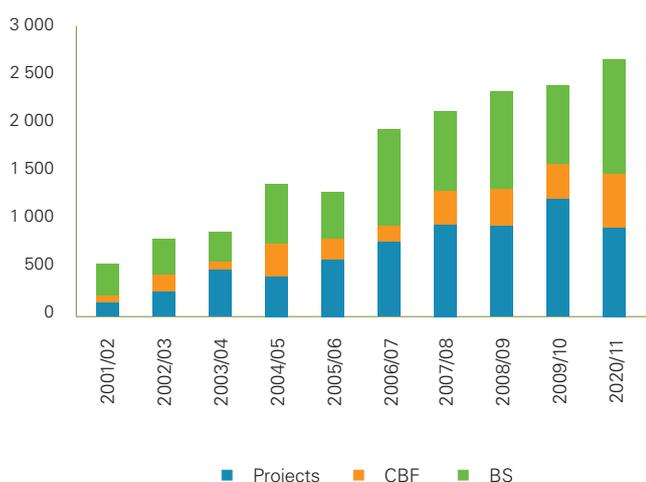


# USE OF COUNTRY SYSTEMS IN TANZANIA

## ODA flows and use of country systems

Tanzania has experienced a significant increase in aid flows over the past 10 to 15 years. As Figure 2 indicates, total aid disbursed in 2010/11 was five times as much as in 2001/02. Net official development assistance (ODA), in nominal terms, was USD1.75 billion in 2004, and increased to USD2.4 billion in 2011 (OECD-DAC 2011). Although Tanzania is heavily aid dependent, the level of aid dependence has decreased over the last decade, and since 2005 net ODA has averaged 10.4 per cent of gross national income, a decrease from 16 per cent in 2004, and stood at around 33 per cent of total government expenditure in the 2010/11 financial year. Most ODA to Tanzania has been in the form of grants and technical assistance.

**Figure 2: Disbursements of aid by modality as reported to MoFEA, 2001–2011 (tz shillings millions)**



Note: CBF = Common basket funding; BS = Budget support

Source: ITAD (2012)

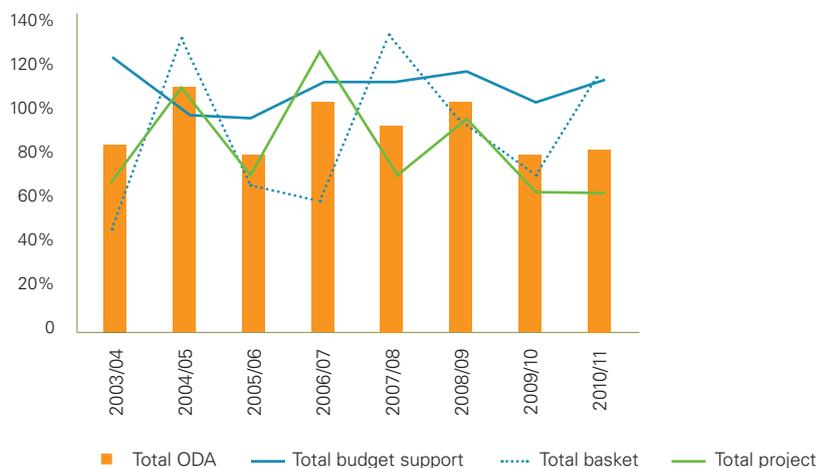
The majority of support is from bilateral donors, who contributed 68 per cent of total aid in 2011. The top five donors, providing 57 per cent of Tanzania's overall ODA in 2010/11, were the United States (USD496 million), the World Bank (USD480 million), the United Kingdom (USD219 million), the European Union (USD171 million) and the African Development Bank (AfDB) (USD151 million). The top five donors from 2003–2005 were the same, although the United States has shifted from the fifth-largest donor to the largest (OECD 2013). This indicates that there have not been any significant shifts in donor funding over the past decade.

**Total aid disbursed in 2010/11 was five times as much as in 2001/02.**

**The 5 below donors make up 57% of Tanzania's ODA:**



**Figure 3: Predictability of total ODA and of the three main aid modalities (actual annual disbursements as a percentage of planned disbursements)**



Source: ITAD (2012)

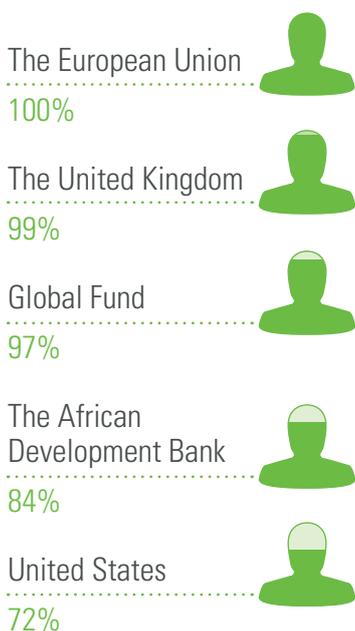
The predictability of total ODA fluctuated over the period, as indicated by Figure 3, although this represents neither a positive nor a negative trend. Actual disbursements recorded by the Ministry of Finance (MoF) fluctuated between 80 per cent and 110 per cent of projected disbursements. In terms of predictability, budget support appears to be significantly better than other aid modalities. There are problems with direct project support and common basket funding (CBF), as disbursements tend to be less than commitments.

Tanzania has experienced a relatively high use of government systems according to the Paris Declaration Survey. Indicator 3a of the survey provides a measure of the degree to which ODA is reflected reliably in country budgets and, thus, the extent to which donors use country systems effectively (see Table 1). In 2005, 90 per cent of Tanzania’s aid was accurately estimated to be on budget; in 2010, this had risen slightly to 92 per cent, which was just short of the target of 95 per cent, with an average of 70 per cent of donors’ disbursements accurately recorded in the government of Tanzania (GoT) budget. The Global Fund had the most accurate score at 99 per cent, while the World Bank was at 72 per cent of aid recorded on budget, the European Union (EU) was at 50 per cent, and the United States was the lowest of the large donors with 37 per cent. The United States’ low score was due to USAID’s lack of participation in budget support or basket funding.

According to Paris Declaration Survey Indicator 5a, the use of country PFM systems increased from 66 per cent in 2005 to 79 per cent in 2010, which exceeded the 2010 target of 77 per cent. The main donors scored highly on this indicator, with the EU channelling 100 per cent of aid through PFM systems, the United Kingdom 99 per cent, the Global Fund 97 per cent, the AfDB 84 per cent and the United States 72 per cent. The score for the United States, however, does not appear to be consistent with the other indicators and in-country interviews, so it is unclear why the United States scores so high on the use of PFM systems when it scores so low on the use of country systems, and only uses project support.

Tanzania has experienced a relatively high use of government systems according to the Paris Declaration Survey.

**Use of country PFM systems by main donors in 2010**



**Table 1: Performance against relevant Paris Declaration Survey indicators**

Indicator	2005	2007	2010 actual	2010 target
3. Percentage of ODA reported on the government budget	90%	84%	92%	95%
5.a Use of PFM systems	66%	71%	79%	77%
5.b Use of procurement systems	61%	69%	72%	No target
6. Number of PIUs	56	28	18	19
9. Programme-based approaches to aid delivery	55%	61%	60%	66%

Source: OECD-DAC (2011)

The use of government procurement systems in Tanzania rose from 61 per cent in 2005 to 72 per cent in 2010, as illustrated by Indicator 5b of the Paris Declaration Survey (see Table 1). A large number of donors use Tanzanian procurement systems (the EU, UK, Global Fund, Canada, Ireland, Norway, Netherlands, Germany and Sweden), with over 90 per cent of aid from these donors in 2010 using government procurement systems. Some donors scored lower, such as the World Bank at 59 per cent and the AfDB at 50.1 per cent.

There has been a dramatic reduction in the number of PIUs, as shown by Indicator 6 of the Paris Declaration Survey, which measures the extent to which parallel implementation structures are being avoided. The number of PIUs fell from 56 in 2005 to 18 in 2010. The donors still operating PIUs in Tanzania in 2010 were the UN with 7, the AfDB with 4, Switzerland and Finland with 2 and the EU and Norway with 1 each.

The use of programme-based aid in 2010 was 60 per cent, which was slightly below the target of 66 per cent and represents no progress since 2007. Nonetheless, the Global Fund, UK, Germany, Canada and Denmark all channel over 90 per cent of aid through programme-based approaches.

As the analysis shows, Tanzania already had a reasonably high level of use of country systems in terms of aid reported on budget and programme aid in 2005. Since this date, the main improvements in the use of country systems have been in a move towards greater use of government PFM and procurement systems and a reduction in PIUs.

### Tanzanian PFM systems

There has been considerable support for strengthening PFM in Tanzania through the Public Financial Management Reform Program (PFMRP), now in its third phase, and other initiatives, such as the Local Government Reform Program (LGRP), which addresses PFM issues at the local level. These programmes are funded through basket funds, while there have also been various individual PFM interventions aimed at procurement, auditing and other key areas for PFM reform. PFM reforms have featured prominently within the government's reform agenda and in the general budget support (GBS) dialogue. This has given donors confidence that GoT systems are sufficiently robust for their PFM systems to be used, particularly as considerable support has been given by donors to strengthen these systems.

More recent evidence suggests that the reliability of Tanzania's financial systems is weakening or at least remaining static. The 2010 Paris Declaration Survey Indicator 2a measures the reliability of PFM systems by using the World Bank's Country Policy and Institutional Assessment (CPIA). This scores countries' PFM systems from 1 (very weak)

**More recent evidence suggests that the reliability of Tanzania's financial systems is weakening or at least remaining static.**

**Indicator 2a (Paris Declaration Survey):**  
Reliability of PFM systems



to 6 (very strong). In 2010 Tanzania was rated 3.5 for the reliability of its PFM systems, which was a decline in performance from 4.5 in 2005.

**Figure 4: Tanzania PEFA scores, 2006 and 2009**



Source: ITAD (2012)

The Public Expenditure and Financial Accountability (PEFA) assessment of 2009 confirmed this deterioration, as it indicated that in comparison with the 2006 assessment, in 2009 there had been a reduction in the relative impact of reforms in the core areas of budgeting, cash management, and accounting and reporting (see Figure 4). The 2009 PEFA also pointed to a decline in the overall credibility of the budget.

Other commentators, such as the World Bank in its Country Assistance Strategy 2012–2015, highlight further evidence to suggest a deterioration of PFM systems. They note the adverse opinion given by the CAG on the Consolidated Financial Statement of the GoT for 2009/10 in the CAG report of 2011, which also indicated weaknesses in budget planning and execution, leading to lapses in commitment and control (World Bank 2011).

On the other hand, the 2009 PEFA pointed to improvements in external audit and scrutiny, payroll, procurement and internal controls, and revenue collection and management between 2006 and 2009. A new PEFA has recently been undertaken in Tanzania, but the results are not yet publically available. Interviewees suggested that the results from this assessment indicate that progress in PFM has been at best static, although the trajectory of change was positive in some cases.

**Actual use of country systems**

In practice, there is a relatively high use of country systems in Tanzania. Budget support uses country systems for all of the budget cycle, as do basket funds. This means that for these aid modalities, funding is reflected in the GoT plan and budget, and disbursement, accounting, internal audit, reporting and oversight systems of the government are used. For projects, funding is often reflected in the government plans and budgets; although

**In practice, there is a relatively high use of country systems in Tanzania.**

projects normally do not use country systems for planning, they do use PFM systems, execution, reporting and audit systems when they are managed by line ministries. However, many projects still operate completely outside of government systems.

The MoF notes that most resources are now reflected in the government plans, through donors inputting ODA commitments into the Aid Management Platform (AMP), which was established by the GoT to increase transparency and information on aid flows. This is also a legal requirement under the 2004 Budget Law and allows the majority of aid to be included in the medium-term expenditure framework (MTEF) and, where appropriate, in the budget, which goes to Parliament. Those donors, such as USAID, which traditionally have not provided information on their activities to the government, have in the past few years begun doing so through the AMP. This has been a great improvement for the MoF, as it allows for greater oversight of funds and strengthens planning.

There are still problems, however. Despite the existence of the AMP platform, donors often report commitments late, which means that funds are not included in GoT plans and the MoF/line ministry has to allocate these funds after the budget cycle, which adds to their workload and makes the MTEF less reliable. In such instances, using country systems affects predictability negatively. Predictability is an issue, too, as disbursements for sector baskets and projects have tended to be significantly below commitments, which at times is due to underperformance in sector baskets (preventing additional disbursements from being made), but also is due to delays in the disbursement of donor funds into the baskets. The AMP report for 2013 notes that direct project entries into the AMP tend to have inadequate or inaccurate information and can lead to incorrect entries in the budget, leading to delays in exchequer transfers and a reduction in the transparency of the budget seen by Parliament.

Funds for budget support, basket funds and some funds for projects are disbursed through the Treasury. All budget support funds use GoT systems and are mixed with GoT budget funds, rendering them untraceable. For basket funds, designated accounts are used as holding accounts, with funds then being transferred to the Treasury single account and later to ministries accounts, with the result that these funds are separately identifiable in the development budget and have their own budget codes. In most cases, they use government procurement systems. Some donors who fund through baskets still have separate accounts parallel to the basket accounts, in order to ensure that they can report separately on the transfer of their funds to the Treasury. Although the number of donors requiring this is reportedly diminishing, it still represents an additional safeguard. Thus, these basket funds represent a hybrid form of the use of country systems.

Some baskets, operate slightly differently; in the health sector, for example, some funds go directly to the district level, having been earmarked for this purpose, and have separate reporting requirements as a condition of donors using country systems. Basket funds all use government accounting systems and financial reporting formats, however, while the CAG undertakes audits of most donor programmes and projects. Overall in 2010/11, 54 per cent of ODA for the government sector was disbursed through the exchequer, leaving 46 per cent off-budget (MoF 2013). This is interesting, as the Paris Declaration Survey of 2010 indicates that 83 per cent of ODA used government systems, which suggests that the figures in the survey may not be completely accurate, given that the government figures provide a much lower percentage.

**Predictability is an issue, too, as disbursements for sector baskets and projects have tended to be significantly below commitments.**



**The latest PEFA reports that the GoT has 29 000 bank accounts overall, which greatly increases the burden on the GoT in terms of oversight and reconciliations.**

Non-governmental projects do not use GoT systems, although most donors report information on such projects to the MoF through the AMP. There are still projects operating outside of the government systems, of which the GoT has no knowledge, but the MoF reports that the majority are on-budget and often use the CAG for auditing, even if Treasury systems are not used on account of donors having confidence in the capacity of the CAG. An example of this is AfDB support to the Tanzania National Roads Authority, where the funds are reflected in the national budget, but do not go through the Treasury systems, although they are audited by the CAG.

Other donors that traditionally have not used GoT systems are also beginning to do so. USAID is now reporting commitments through the AMP and, although its funding does not go through the exchequer, it uses the CAG to audit three reimbursable grants for its Governance and Democracy Programme. Similarly, in the past, basket funds tended to use external auditors, but more recently there has been a move towards using the CAG, as considerable support has been given to strengthen GoT auditing capacity, and the CAG is perceived to operate relatively well.

There is a specific issue with projects that go directly to local authorities, as these often do not pass through central government systems, which means that neither the MoF nor the relevant line ministries have knowledge of them and, therefore, cannot exercise oversight of such projects. This is a problem; the latest PEFA reports that the GoT has 29 000 bank accounts overall, which greatly increases the burden on the GoT in terms of oversight and reconciliations. In addition, non-traditional aid partners such as China, India and Brazil neither report ODA commitments to the government nor do they use country systems.

In terms of procurement, GoT systems are used widely, and are employed for budget support and sector baskets, with the majority of bilateral donors using GoT procurement systems. For multilaterals, the World Bank uses country systems for national competitive bidding procedures, while the AfDB also uses national procurement systems for general budget support and sector budget support, and for other programmes, provided that international competitive bidding is not involved. This policy is likely to change in the future, however, as the AfDB is looking to move towards greater use of government systems throughout Africa in order to be better aligned with Paris Declaration commitments. The AfDB in Tanzania has also been providing support to the GoT to strengthen procurement capacity and systems, and is waiting for the change in policy on procurement from headquarters, which is perceived in a positive light.

Additional safeguards are employed by donors when country systems are used. Designated accounts are used as holding accounts, with funds subsequently transferred to the Treasury, but funding is still traceable and reported on although it is disbursed through GoT systems. Another safeguard is using the CAG for auditing, although there have been recent instances where external auditors have been contracted when there have been reports of financial mismanagement.

The high use of country systems in Tanzania, compared to many other African countries, has been as a result of initial confidence in Tanzanian PFM systems, which have received significant support from donors and, until 2009, were perceived to be improving. Since then, an inverse relationship appears to have emerged; both the Paris Declaration Survey

of 2010 and the 2009 PEFA point to a deterioration in PFM systems, while the use of country systems has increased. This seems to have been a consequence of continued momentum to comply with the Paris Declaration, despite some unease among donors about slow progress in PFM reform.

In addition, many initiatives for the use of country systems began before the deterioration in PFM systems and, once these mechanisms are established, it is difficult for donors to reverse the trend. There is, however, still confidence in some key areas of the PFM system: the CAG is perceived to be working well and improvements in procurement systems have occurred, which has increased capacity through the establishment of the Public Procurement Regulatory Authority (PPRA) and efforts to develop a procurement cadre. Also, joint diagnostics, such as fiduciary risk assessments (FRAs), are always undertaken by donors and, provided the fiduciary risk is acceptable, most donors consider that the level of risk is outweighed by the benefits of using country systems.

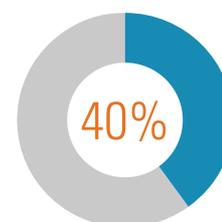
### Budget support and other aid modalities

There are three main aid modalities in Tanzania: budget support, CBF and direct project support. Budget support comprises general budget and sector support,<sup>1</sup> while there are a several basket and direct project support funds.<sup>2</sup> There has been a substantial increase in the total amounts disbursed through all three modalities since the early 2000s.

In the 1990s, project support was the dominant aid modality, but since 2003/04, project support has accounted for around 40 per cent of total aid. By the early 2000s, budget support through programme aid and structural adjustment schemes amounted to about 30 per cent of external aid. Between 2001/02 and 2004/05 there was an increase in the relative importance of budget support, but since then it has also been around 40 per cent of ODA disbursements (see Figure 5).<sup>3</sup> The importance of CBF increased between 2001/02 and 2004/05 and, since then, it has generally comprised just under 20 per cent of total aid.

The high use of country systems in Tanzania, compared to many other African countries, has been as a result of initial confidence in Tanzanian PFM systems, which have received significant support from donors and, until 2009, were perceived to be improving.

**Budget support= 40% of ODA disbursements**



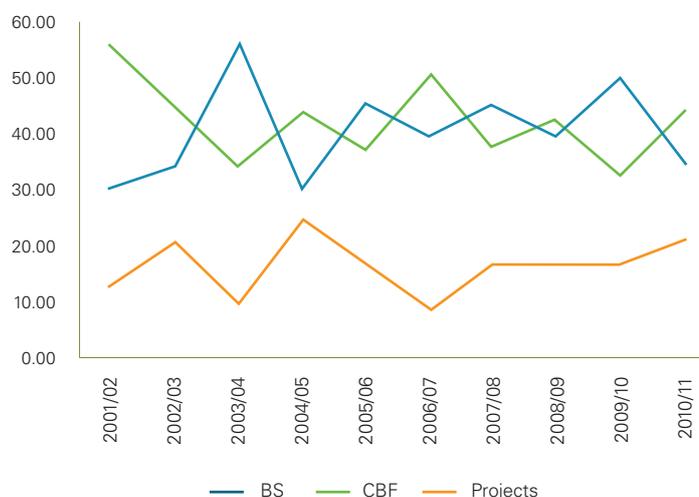
<sup>1</sup> The main sector budget support (SBS) arrangements have been four Education SBS operations financed by the EU, Canada, the Netherlands and, more recently, the UK's DFID, whose operation started in 2011/12 and the Road Transport Sector Policy Support Programme financed by the EU for 2009–2013.

<sup>2</sup> The main baskets are in agriculture, health, water, the Public Service Reform Programme, Legal Sector Reform Programme, Public Financial Management Reform Program, Business Environment Strengthening in Tanzania Programme, Tax Modernisation Programme, and Tanzania Statistical Master Plan.

<sup>3</sup> General budget support began in Tanzania in 2011 and is currently financed by 11 bilateral development partners – Norway, UK, Japan, Sweden, Denmark, Ireland, Canada, Germany, Finland, Netherlands and Switzerland – together with the European Commission, the World Bank and the AfDB.

The use of country systems may decline in the future, as the amount of ODA channelled through budget support is beginning to fall.

Figure 5: Disbursement by aid modalities as a percentage of ODA



Note: CBF = Common basket funding; BS = Budget support

Source: ITAD (2012)

The use of budget support and sector baskets has increased the use of country systems in Tanzania, as has the reduction in PIUs and the move by the GoT to ensure that projects managed by the GoT use government systems. The shift towards budget support and sector baskets occurred as the GoT has had a strong policy of encouraging donors to provide ODA through budget support or, if this is not possible, through sector support. Sector baskets were established largely from the end of the 1990s onwards and were initiated by donors, with their structure varying according to the sector context and donors involved. This, in combination with donor confidence in PFM systems and a desire to adhere to Paris Declaration commitments, has led to the increased use of country systems.

The use of country systems may decline in the future, however, as the amount of ODA channelled through budget support is beginning to fall. The Netherlands and Switzerland have discontinued general budget support; the DFID (2011) has stated that it will reduce budget support commitments; and the Tanzanian press have reported that the EU may channel support through other means such as NGOs rather than using general budget support (*The Citizen* 15 May 2013). If funds are channelled directly to NGOs, this might well have an impact on the use of GoT systems, but reductions in budget support need not necessarily have this effect if funds are redirected to sector baskets or other programmatic support. However, more fragmentation in aid modalities, even if country systems are employed, places more of a burden on the government in terms of having to undertake additional planning, budgeting and auditing, unless there is a shift to sector baskets with common arrangements and more safeguards.

### Country level of awareness and adherence to donor policy frameworks and processes

There is a high level of awareness among donors of the internal policy of their organisation on the use of country systems. All donor agencies consulted had clear guidelines from headquarters on when the use of country systems was possible and how the guidelines should be complied with. In most cases, there were clear policy statements that country

systems should be used where possible. For example, the AfDB (2011: 17) notes in its *Country Strategy Paper 2011–2105* that ‘in all its operations, the Bank, to the maximum extent possible, will attempt to use country systems and support efforts to improve their capacity’. Similarly, the World Bank’s *Country Assistance Strategy 2012–2015* notes that ‘Bank-financed investment operations use Tanzania’s national financial management systems, in line with the Accra Agenda for Action and consistent with World Bank financial management policy’ (World Bank 2012: 43).

Interviewees were also well aware of the diagnostics that needed to be undertaken before country systems could be used, such as FRAs and the discretion that they had at country level on the use of country systems. In most cases, a formal process of assessment was required in order to assess risk and justify the use of country systems.

For some agencies, the use of country systems was not allowed or was limited, and again there was an awareness of the guidelines that stipulated this. In some instances, headquarters policy had shifted over the past few years. For example, USAID may now use country systems as part of its Forward Policy introduced in 2010. This policy encourages the use of country systems and acknowledges that not using country systems has reduced incentives to help build the capacity of receiving institutions; it focuses on strengthening local civil society and private sector capacity, and on making more extensive use of partner government systems. The USAID office in Tanzania has the flexibility to decide how to implement this policy in-country. However, this also represents a challenge as it is still a legal requirement that USAID funds be earmarked for activities, which rules out budget support and makes it difficult to reconcile with the use of basket funding, given that such funds are not normally ring-fenced.

### Country policy frameworks and processes

The GoT has a very clear policy towards country systems and strongly encourages their use. This is underpinned by GoT preferences in aid modalities, as the government requires donor support to be through budget support and, if this is not possible, through sector baskets. Providing information on ODA commitments is also enshrined in law, and the MoF has established the AMP to allow donors to input their own commitments. The MoF also makes it clear that, where feasible, country systems should be used throughout the budget cycle.

Government policy discourages the use of PIUs. Instead, the policy is in favour of the planning departments of ministries managing all ODA, and the MoF has been building capacity within these units to try and ensure that the relevant skills and staffing are available. This policy in support of the use of country systems and the abolition of PIUs is applied reasonably consistently across the government, with line ministries adhering to it and actively seeking to ensure that all ODA funds are managed through them and use country systems to the extent possible. This is also underpinned by the Joint Assistance Strategy for Tanzania (JAST) of 2006, which defines relations between the GoT and donors. The JAST commits donors to the use of general budget support or, where this is impossible, to the use of basket funds. All aid modalities must be captured on budget and disbursed through GoT systems. When funds are disbursed outside of GoT systems, they should still be captured on budget.

**The MoF makes it clear that, where feasible, country systems should be used throughout the budget cycle**



**Additional co-ordination units are often used to deal with administrative aspects of programmes related to reporting, financial management and procurement.**

### **Risk as a factor at country level**

The main risks in using country systems are fiduciary risks arising from weak PFM and procurement processes, and the GoTs capacity to manage funds effectively and to co-ordinate implementation. There is a particular concern about risk at local government authority (LGA) level, as a significant amount of funds (around 25 per cent of the GoT budget) flow to the local level, but capacity for financial management is weak. There are also inadequate levels of staffing at implementing agencies and line ministries.

To date, these risks have been mitigated by donors jointly undertaking FRA (the last of which, funded by the DFID and AfDB, was in 2011), procurement assessments, PEFAs and other financial assessments to analyse risk. Further safeguards have been employed to mitigate the perceived risks in using GoT systems, through separate disbursement accounts and reporting requirements, and donors reserving the right to use external auditors if necessary. Additional co-ordination units are often used to deal with administrative aspects of programmes related to reporting, financial management and procurement. Financial and procurement audits undertaken by the CAG also act as safeguards. Funding for capacity-building through the PFMRP, the LGRP and other related interventions is another way in which donors attempt to reduce risk.

The perception of risk has changed, however, as the move towards the use of country systems occurred at a time of increasing confidence in Tanzania and GoT capacity. There has also been an acceptance of higher levels of risk by donors on the understanding that it represents a trade-off against the benefits of using country systems (which should lead to these systems being strengthened). Currently, PFM reform is not progressing as rapidly as donors had hoped and, at the same time, donors are becoming more risk adverse due to a weakening appetite for risk among European governments. This is becoming an increasingly significant factor impacting on donors' decisions in terms of aid modalities and the use of country systems, as donors differ in terms of the amount of risk they are prepared to face.

Related to this, there is acknowledged to be a broader risk that affects donors of general budget support. By using government systems, and funding the GoT budget, any mismanagement of funds, even in an area that is not the priority of an individual donor, impacts on donors due to increased sensitivity in their home countries to instances of financial mismanagement. This, and a perception that budget support is not delivering the expected results, is leading to a re-evaluation of budget support by some donors, causing them to consider moving from general budget support to sector budget support, which, in itself, could be considered a form of safeguard.

This risk aversion has also manifested itself through the commissioning of additional reports and audits when issues arise. For example, the LGRP basket fund recently had a procurement audit and a forensic audit, which raised some issues that concerned donors. A special audit was then undertaken by donors, and its results indicated financial mismanagement in procurement and per diems, which resulted in funding being suspended. The audit suggested that extra oversight should be established for the payment systems, although a decision has not yet been taken on whether to implement additional safeguards.

Some donors have retreated into increased use of project support as a reaction to the perception of greater risk. For example, from 2008 onwards, Finland changed its country programme in response to weak GoT capacity in PFM and diminishing dialogue between the government and donors. This resulted in the development of projects that did not use government systems and increased the use of parallel structures (MFAF 2012).

## Incentives

The main incentives for donors to use government systems come from headquarters policy on the use of country systems and the context on the ground in Tanzania. Most donors note that the drive to use country systems emanates from their headquarters' requirement of aligning with the Paris Declaration, Accra Agenda for Action and Busan Partnership for Effective Development Co-operation. This gives a very clear message to donor personnel that country systems should be used unless diagnostics indicate that they are not sufficiently robust. The exception to this is where there is a more general policy constraint on using country systems from head office. Donors have also signed up to the JAST, which provides additional commitments to use country systems and peer pressure in terms of adhering to these commitments, given the extensive use of country systems by other donors in Tanzania.

Similarly, incentives exist for country officials to encourage the use of government systems, as officials are aware that they need to adhere to GoT policy. There does not appear to be any difference in the views of central and line ministries on this. On the other hand, there is an acknowledgement that there should be flexibility, and if a donor is not completely able to use country systems then this ought to be accommodated.

## Capacity at country level

The capacity of donors to manage aid through country systems varies, as using country systems can be resource intensive and time consuming, which means that the larger donors have greater capacity to manage the process. This is due to the need to attend meetings related to budget support and sector baskets in order to participate in sector dialogue and the fact that, because of the large number of donors in Tanzania, co-ordination can be difficult. This is particularly the case for those donors who co-ordinate sector baskets or who are part of the budget support troika, although the management of projects can also be time consuming, given that most donors no longer use PIUs. This implies that they have to be more hands-on in overseeing projects than if contractors were running them, especially where the line ministries managing the projects have weak capacity themselves. In addition, donors now need to enter commitments on ODA into the AMP, and the MoF has noted that some donors struggle to comply in a timely manner due to capacity constraints.

The capacity of personnel in receiving institutions to manage ODA also varies depending on the specific institution. The central institutions, such as the MoF, are perceived to have reasonable capacity, as do the CAG and the PPRA. There is variation within line ministries, however, and donors pointed to problems, particularly with reporting, which can delay disbursements. The line ministries themselves noted that, now that PIUs have nearly been eliminated, their workload has increased as they can be required to manage basket funds and projects in addition to their normal work, which represents an additional

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burden. This is due to the need to drawdown these funds separately in the national budget and, in some cases, to use separate reporting and procurement systems. The MoF has been working to enhance the capacity of policy and planning departments, but a lack of capacity means that for some programmes, additional secretariats or co-ordination units are established by donors to enhance capacity and ensure that the programmes are well managed.

### **Barriers and enablers**

The main factors that have enabled the use of country systems in Tanzania have been confidence in GoT PFM systems, the fact that reforms in various related areas have been moving forward and that the CAG and other oversight institutions are perceived to operate effectively. Donors have also established programmes to support the key areas where systems and processes have been weak, in order to mitigate against fiduciary risk.

The shift towards greater use of country systems was underpinned by the JAST, which committed donors to more harmonised ways of working. The MoF encouraged this process through its aid policy, which gave clear signals to donors on the government's preference for budget support and the use of country systems as outlined in the JAST. The MoF also put effort into discussion and negotiation with donors to ensure that policies and commitments were adhered to, and the establishment of the AMP allowed for greater transparency in terms of aid commitments and disbursements.

The main barriers to using country systems in Tanzania are donor policies and perceptions of risk mainly related to fiduciary risk. The majority of donors are using country systems to a large extent, and those that are not are either not allowed to by headquarters policy or are limiting their use due to concerns regarding the PFM system and GoT capacity. Given that there are currently some concerns among donors about whether PFM reforms are progressing, it is important for the GoT to continue to ensure that the remaining weaknesses in PFM are addressed, in order for donors to remain confident that there is a low risk in using GoT systems. GoT capacity also needs to be enhanced in order to ensure sound management of donor funds that flow through country systems, so that parallel co-ordination units or secretariats do not need to be put in place to give donors confidence that funds will be managed well.

# PROJECT IMPLEMENTATION UNITS

## Use of PIUs

There has been a significant reduction in the use of PIUs in Tanzania, from 56 PIUs in 2005 to 18 in 2010. This is because of GoT policy, which has aimed at the elimination of all PIUs, and donors who are adhering to the Paris Declaration and have instituted policies not to use them. Most countries reduced their use of PIUs between 2007 and 2010; Finland and Switzerland, which increased their use due to concerns over the use of country systems, were exceptions.

It is GoT policy that ministries' policy and planning departments receive support in being responsible for managing donor programmes, rather than creating parallel co-ordination units. Consequently, the MoF has been providing capacity-building support to these departments through additional training in an attempt to ensure that sufficient skills are available to manage aid effectively.

In practice, most donors either use government staff entirely to manage aid programmes or they use secretariats/co-ordination units to deliver projects and programmes and often hire additional staff to fill the necessary posts. Such an approach is essentially another safeguard against using country systems. These units differ from traditional PIUs as they manage and co-ordinate but do not implement activities, although a few traditional PIUs still remain. In the Ministry of Agriculture, for example, there is a co-ordination unit for the agricultural basket, the Agricultural Sector Development Programme, as there was judged to be insufficient capacity within the ministry to plan and use financial systems. This unit uses ministry staff and salaries are topped up. The AfDB employs a similar system for its sector support in rural water and sanitation, and has established a co-ordination unit to ensure that reporting and other processes are undertaken effectively. Similarly, in the PFMRP, there is a secretariat with additional staff. These arrangements have been made because of donor concerns regarding the capacity of staff within line ministries to manage and co-ordinate these programmes, and are not counted as PIUs in the Tanzania Paris Declaration Survey, as they are deemed to deal with administrative arrangements rather than implementation.

Examples of traditional PIUs are two that have been established by the AfDB, one of which is in the Prime Minister's Office and was established in this way as it is a large programme with many different components. The second PIU is for a programme that supports small and medium enterprises (SMEs), and was established as a PIU because it will eventually become a corporate entity facilitating financing for SMEs.

## Impact of PIUs

Views are mixed as to whether using ministry staff or establishing co-ordination units/secretariats, which is the predominant mechanism currently being used, works well in comparison with PIUs. The MoF believes that using existing line ministry staff to co-ordinate and manage donor aid works best, as PIUs create a lack of ownership, because they exist as separate entities; thus, institutionalisation of these processes is preferable in order to build staff skills and capacity and to ensure sustainability. In the government's experience, it is difficult to incorporate PIU staff into the government after projects are

**PIUs in Tanzania have decreased between 2005 and 2010**

2005



2011



**The GoT's view is that donors should use government staff and institutions unless there is no need for a project to be sustainable as it will come to a pre-determined end.**

completed, as the salary level is lower if top-ups have been paid by donors. This situation of existing government staff being paid a different salary also creates tensions within the institution and leads to inequalities. The GoT's view is that donors should use government staff and institutions unless there is no need for a project to be sustainable as it will come to a pre-determined end (e.g. the Millennium Challenge Account, which operates a PIU). Nevertheless, the government acknowledges that there have been challenges with this policy in terms of capacity; for example, producing reports to a high standard in a timely manner has been an issue. On the other hand, ministry staff have a good understanding of government planning and budgeting systems, which is an advantage over staff from outside the government.

Line ministry staff take a different view, as their concern is the extra burden that managing ODA has added to their normal work load. There is a perception that there are insufficient staff resources to be able to undertake this additional work effectively. As a result, staff have experienced problems with completing reports on time and ensuring the implementation of programmes. There was a view that ministries were able to provide good oversight and monitoring of projects and programmes, but not full management and co-ordination.

Both the GoT and donors stressed that there were very mixed experiences in using either ministry staff or secretariats to manage programmes. It was reported that there was a co-ordination unit in the Ministry of Education and Vocational Training (MoEVT) for the Secondary Education Development Programme (SEDP), with full-time staff, paid by the World Bank, hired to manage the project. According to the MoEVT, this programme worked well, but when the system changed in the second phase and MoEVT staff were assigned to work in the co-ordination unit for SEDP II, the arrangement worked less well. In contrast, it was reported that the Primary Education Development Plan II basket, managed by staff from the MoEVT, was very successful.

There was a view among some donors that PIUs could be useful in ensuring that projects moved forward quickly, as the main problem was a lack of capacity within receiving institutions to manage projects and ensure progress. It was felt that there was a trade-off. The use of PIUs does not build government capacity and is not sustainable; however, this implies accepting slower progress in terms of implementation and results. This was reported to be the case particularly at LGA level, where capacity is weak, and it was noted by donors that establishing co-ordination units did not necessarily resolve this problem. As noted above, for the LGRP basket, additional staff were recruited to undertake PFM and procurement. This, however, did not prevent problems with financial management that were discovered during a special audit requested by donors. Other donors also reported that embedding projects in receiving units was positive for sustainability, but often staff did not have time to engage fully with the programme, particularly if the co-ordination rested with high-level government officials.



## CONCLUSION

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Tanzania has experienced a relatively high use of government systems, which has been driven by a clear policy on ODA, which promotes the use of budget support, and basket funds that use country PFM systems, the development of an AMP that allows donors to provide information on aid commitments and disbursements, and system-strengthening in key areas of PFM, particularly, in recent years, in procurement and audit. There is, however, still considerable use of safeguards when using country systems. These range from the use of designated holding accounts before transferring funds into the single treasury account, funds having separate budget codes, additional reporting requirements, additional audits and the establishment of project co-ordination units.

Donors have increased their use of government systems in Tanzania as a result of confidence in the GoT's PFM systems, the fact that reforms in various related areas have been moving forward and the CAG and other oversight institutions in Tanzania are perceived to operate effectively. There has also been pressure from headquarters to align with international agreements on aid effectiveness, and donors have established programmes to support the key areas where systems and processes have been weak in order to mitigate against fiduciary risk.

There has been considerable progress in reducing the numbers of PIUs as a result of GoT policy, and government staff are now used to manage aid programmes, or secretariats are established. There are mixed views on the effectiveness of these arrangements in comparison to PIUs. Central government believes that they work well, while line ministries perceive that their workload is increased significantly and they do not have sufficient resources to manage them effectively. Many donors thought that projects moved forward more quickly if a PIU was established, but acknowledged that there is a trade-off, as although PIUs do not build government capacity and are not sustainable, they do result in quicker progress in terms of implementation and results. The compromise of co-ordination units, which many programmes are using were also not considered to be as effective as PIUs, as slow implementation is still a problem and capacity-building and sustainability remain problematic in many cases.

In order to increase the use of systems further and to address current donor concerns over their use, there is **a need for the GoT to address issues with PFM systems and capacity**. It is important for the GoT to continue to ensure that weaknesses in core PFM functions are tackled, in order for donors to remain confident that there is low risk in using GoT systems and to address the increasing risk aversion that many donor governments are experiencing. **GoT capacity also needs to be enhanced** in order to ensure sound management of donor funds that flow through country systems, so that parallel co-ordination units or secretariats are not needed to give donors confidence that funds will be managed well.

Donors themselves need to ensure that the government is informed of **commitments and disbursements in a timely and accurate manner** so that aid can at least be on plan even if it is not disbursed through Treasury systems, and donors should try to **ensure that parallel systems are not established** and that government systems are used whenever feasible.

# ANNEX 1: COUNTRY RESEARCH FRAMEWORK AND QUESTIONS

Use of country systems	
Country history in respect of ODA and use of country systems	<p>ODA volume, flow, type and predictability.</p> <p>What is the history of the use of country systems at the country level (data and narrative)?</p> <p>Have there been concentrated and/or significant shifts across donors, and what triggered such shifts?</p> <p><i>The research teams will not attempt to collect additional data on the use of country systems for each of the selected two country case studies, but will provide a thorough analysis of existing OECD-DAC and Paris Declaration data. The country fieldwork will collect qualitative information to construct a narrative on the use of country systems.</i></p>
Country PFM systems	Analysis of quality and change in quality of country PFM systems, using PEFA and other assessments (prior to country visit, standard analysis for focus countries).
Actual use of country systems	<p>What are the links between quality of PFM systems and use of country systems, if any?</p> <p>Across the budget cycle, is there a difference between the use of country systems by type of aid flow (grant/loan)?</p> <p>Across the budget cycle, which donors use which country systems in which ways? What are examples of additional safeguards? What are examples of partial use of country systems within a specific phase? How does this relate to risk assessments?</p> <p>Does the application of such additional safeguards and limited use impact on the benefit of the use of country systems for the country? How?</p>
Budget support and other aid modalities	<p>What budget support is provided and how much of the shift to use of country systems is on account of budget support (Paris Declaration Survey Data, modified by country level information, if readily available)?</p> <p>What drives a shift to budget support? What blocks a shift to budget support? How does this differ across donors (headquarters factors and country factors)?</p> <p>Were there shifts to other aid modalities or disbursement channels that contributed to the use of country systems (e.g. to programmatic rather than project, or basket rather than individually managed funding modalities)?</p>
Country-level awareness and adherence to donor policy frameworks and processes	<p>How aware are donor country personnel of donor use of country systems policy frameworks? How well are they able to apply these?</p> <p>Are formal processes for use of country systems decisions followed?</p>
Country policy frameworks and processes	<p>What is the country's policy in terms of the use of country systems? Is this policy applied consistently across government?</p> <p>What processes, driven by the country, have increased or could increase the use of country systems?</p>
Risk as a factor at country level	<p>How do donors view risk in the country concerned? Which risks count for which donors and why? How does risk impact on the use of country systems?</p> <p>What risks does the country face when country systems are used? Do these feature in country decisions when requesting or agreeing to the use of country systems? Are these risks considered by donors?</p> <p>Is the assessment of risk modified by an assessment of possible benefits?</p>
Incentives	<p>What incentives do country donor personnel face to use country systems? What drives these incentives?</p> <p>What incentives do country officials face to use country systems? Do these differ between central institutions, like the Ministry of Finance, and line departments? What drives the incentives?</p>
Capacity at country level	What are donor and country personnel capacities for managing aid through the use of country systems?
Barriers and enablers	<p>What barriers specific to the country impact on the use of country systems? Are there key country actions that may overcome such barriers?</p> <p>What factors are enabling the use of country systems? Are there country-donor partnership factors or institutions at country level that enable the use of country systems?</p> <p>Are there country actions – across donors or donor specific – that have triggered increased use of country systems?</p>

PIUs	
Use of PIUs	<p>How many PIUs are in place and what is the history of the use of PIUs?</p> <p>Are there aid programmes that are managed through institutional arrangements that mimic PIUs, but are not defined as such? What are these and what has driven their establishment?</p>
Impact of PIUs	<p>What is the impact of PIUs on aid sustainability at the country level? Are there instances where PIUs/similar arrangements arguably ensure the delivery of results or safeguard funds, but do not affect long-term sustainability of programme outcomes or development?</p>

## ANNEX 2: PEOPLE MET

Name	Position	Organisation
Godfrey Kaijage	Principal Financial Management Officer	African Development Bank
Yussuf Balozi Hija	Procurement Officer	African Development Bank
Ignas A Chuwa	Budget Officer	Ministry of Finance
Monica L Mwamunyange	Commissioner for Budget	Ministry of Finance
Levina Kimaro	Budget Officer	Ministry of Health and Social Welfare
Alice Matembele	Budget Department	Ministry of Finance
Pascal Melkory	Acting Chief Accountant for Financial Management	Ministry of Finance
Simeon S. Maingu	Chief Accountants Office	Ministry of Finance
John Kuluwa Mgalula	Policy and Planning Department	Ministry of Education and Vocational Training
Gerald Geoffrey Mweli	Economist	Ministry of Education and Vocational Training
Adrian P Njau	External Assistance Department	Ministry of Finance
Izwina Kimaro	External Assistance Department	Ministry of Finance
Chiara Bronchi	Lead Public Sector and Governance Specialist	World Bank
Jim Halliday	Director	Canadian Cooperation Office
Craig Hart	Supervisory Programme Officer	USAID
Nick Highton	Economic Advisor	DFID

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