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PROJECT PERFORMANCE ASSESSMENT REPORT

TANZANIA

**LOCAL GOVERNMENT SUPPORT PROJECT
(IDA-40030, IDA 40031)**

March 7, 2016

IEG Human Development and Economic Management Department
Independent Evaluation Group

Currency Equivalents (annual averages)

Currency Unit = Tanzania Shilling (T Sh)

2005	US\$1.00	T Sh 1.12
2006	US\$1.00	T Sh 1.25
2007	US\$1.00	T Sh 1.24
2008	US\$1.00	T Sh 1.19
2009	US\$1.00	T Sh 1.32
2010	US\$1.00	T Sh 1.40
2011	US\$1.00	T Sh 1.57

Abbreviations and Acronyms

AF	Additional Financing
CAS	Country Assistance Strategy
CBG	Capacity Building Grant
CCM	Chama Cha Mapinduzi
CDG	Capital/Council Development Grant
CIUP	Community Infrastructure Urban Program
DAWASA	Dar es Salaam Water and Sewerage Authority
DCA	Development Credit Agreement
DIME	Development Impact Evaluation Initiative
DP	Development Partners
ERR	Economic Rate of Return
GoT	Government of Tanzania
ICR	Implementation Completion Report
IDA	International Development Association
IE	Impact Evaluation
IEG	Independent Evaluation Group
ISR	Implementation Support Results Report
JAST	Joint Assistance Strategy for Tanzania
JICA	Japan International Cooperation Agency
LGA	Local Government Authority
LGCDG	Local Government Capital Development Grant
LCDG	Local Capital Development Grant
LG-DPG	Local Government-Development Partner's Group
LGRP	Local Government Reform Program
LGSP	Local Government Support Project
MC	Minimum Conditions
M&E	Monitoring and Evaluation
MTR	Mid-Term Review
NPV	Net Present Value
O&M	Operations & Maintenance
PAD	Project Appraisal Document
PPAR	Project Performance Assessment Report
PRSP	Poverty Reduction Strategy Paper
PO-RALG	President's Office-Regional Administration and Local Government
PMO-RALG	Prime Minister's Office Regional Administration and Local Government
PAPs	Project Affected Persons
TASAF	Tanzania Social Action Fund

Fiscal Year

Government: July 1 – June 30

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This report was prepared by Lourdes N. Pagaran, who assessed the project in November 2014. The report was peer reviewed by Stefano Migliorisi and panel reviewed by Clay Wescott. Yezena Yimer and Viktoriya Yevsyeyeva provided administrative support.

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Principal Ratings

	ICR*	ICR Review*	PPAR
Outcome	Moderately Satisfactory	Moderately Satisfactory	Moderately Satisfactory
Risk to Development Outcome	Moderate	Moderate	Significant
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	Moderately Satisfactory
Borrower Performance	Moderately Satisfactory	Moderately Satisfactory	Moderately Satisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEGWB product that seeks to independently verify the findings of the ICR.

Key Staff Responsible

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About this Report

The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEG annually assesses 20-25 percent of the Bank's lending operations through field work. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEG staff examine project files and other documents, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, and interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

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Outcome: The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. The efficiency dimension generally is not applied to adjustment operations. *Possible ratings for Outcome:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Risk to Development Outcome: The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High, Significant, Moderate, Negligible to Low, Not Evaluable.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes. The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Preface

This Project Performance Assessment Report (PPAR) covers an operation implemented over the period FY05-FY12. The Tanzania Local Government Support Project (LGSP) was approved by the Board on November 30, 2004, became effective on April 13, 2005 and closed on June 30, 2012. The project's development objectives were to: (a) strengthen fiscal decentralization and improve accountability in the use of local government resources and in the management of intergovernmental transfer systems; and (b) increase access to infrastructure and services in the Unplanned Areas of Dar es Salaam and improve revenue performance for sustainable operation and maintenance.

The Report presents findings based on the review of the Project Appraisal Document (PAD), the Implementation Completion and Results Report (ICR), Implementation Status and Results Reports (ISRs) and other relevant materials. In addition to project documents, information for this assessment was obtained from interviews conducted during an IEG mission in Tanzania in November 2014 with government officials, project supervisors, local government authorities, members of the donor community, and Bank staff. Interviews were also conducted in Washington with Bank staff and scholars/experts on decentralization on Tanzania.

The author would like to acknowledge the cooperation and support provided by Bank staff in the country office and in Washington, and to all interviewees. Special thanks to Ryotaro Hayashi and Jeffery Tanner (IEG) who provided inputs and technical support in validating the impact evaluation results and to Aidan Coville (DIME) who kindly provided the data sets and insights on the impact evaluation.

The assessment aims first to serve an accountability purpose by verifying whether the operation achieved its intended outcomes. Second, the report draws lessons that are intended to inform the design and implementation of future operations on decentralization and local governance in Tanzania and other countries in Sub-Saharan Africa and elsewhere.

The assessment will constitute part of a clustered PPAR on local governance. The clustered PPAR evaluates three local governance projects in addition to the Tanzania LGSP- one each in Mozambique, Rwanda and Uganda- in order to identify lessons in the design and implementation of local governance reforms and capacity building efforts. These lessons are intended to contribute to ongoing Bank efforts to innovate approaches to state building, social accountability and good governance.

Following standard IEG procedures, the report was sent to the government officials and agencies in the United Republic of Tanzania for review and comments, no comments were received.

Summary

Following its national election in 1994, the Government of Tanzania embarked on an ambitious decentralization process enunciated in its 1998 Policy Paper on Local Government Reform which articulated a vision of a system of autonomous local governments. This impetus took place against a backdrop of a checkered history of decentralization, characterized by pendulum swings, from a strong local government inherited during the colonial period to its abolition after independence and then its revival in the 1980s. The government's Local Government Reform Program (LGRP) was implemented in two phases: LGRP I (1998-2008) and LGRP II (2009-2014). Both phases ended with mixed results.

The government's motivation to decentralize could be construed as originally driven by the dominant political party *Chama Cha Mapinduzi* (CCM) Party and the president in the 1980s to the 1990s. Prior to the 1998 Policy Paper, substantial public sector changes already occurred with the civil service reforms in 1996 (retrenchments and reorganization of the public sector). The drive for reform was also motivated by other factors including political and demographic changes, particularly in the 1980s when there was limited donor influence. During this period there was a wave of decentralization that was sweeping the continent (and other parts of the developing world) as countries transitioned to more democratic institutions, urbanization and other political dynamics. However, with the change in administration in 2005, support for decentralization evolved and was limited to the technocratic interlocutors with the donors and did not include broad based buy-in from other key stakeholders including the executive, Parliament and other members of the bureaucracy (Tidemand and Dege, 2010, page 28). The international donor community supported LGRP I & II beginning in 2000 through a common basket fund. The Bank belatedly joined other donors in supporting LGRP in 2004, through the Tanzania Local Development Support Project (LGSP).

The Tanzania LGSP, the operation under review, was the first Bank operation in the country to support LGRP and in particular, the intergovernmental transfer system (or the Local Government Development Grant System-LGDG). The government issued a Letter of Sector Policy in conjunction with the approval of LGSP in which it articulated a "vision of a unified transfer system which brings together programs and grants, recurrent and development funding, donor and government funding into one process." Another Letter of Policy was issued at the time of Additional Financing to reiterate its commitment of a unified and harmonized intergovernmental system that would be mainstreamed and fully funded by government resources by the time LGSP is completed. LGSP encompassed the two phases of LGRP and builds on a Bank financed operation in Uganda (Local Government Development Program) that was already on its second phase after the pilot closed in 2003.

LGSP's development objectives were to: (a) strengthen fiscal decentralization, and improve accountability in the use of local government resources and in the management of intergovernmental transfer systems; and (b) increase access to infrastructure and services in the Unplanned Areas of Dar es Salaam and improve revenue performance for sustainable operation and maintenance. The project's development objectives were revised in the 2009 restructuring but the revised objectives were not materially different

from the original objectives. LGSP has three components: (1) Support for Local Government Capital Development Grant System (later renamed Local Government Development Grant- LGDG system); (2) Dar es Salaam Upgrading and Institutional Strengthening; and (3) Support to the Prime Minister's Office Regional Administration and Local Government (PMO-RALG)¹ .

At appraisal, the total project cost was \$60.80 million, which comprised of IDA (\$52 million, Borrower (\$6.5 million) and LGAs/Communities (\$2.30 million). An Additional Financing (AF) of \$98 million was approved in June 15, 2006, bringing the total IDA credit financing to \$150 million. Actual total project cost (estimated at the time of closing) was \$150 million including \$ 141 million from IDA, \$3.9 million from Borrower and \$4.9 million from LGAs/community contribution. The project was approved on November 30, 2004 and became effective on April 13, 2005. The original closing date of June 30, 2008 was extended by three years at the time of AF to June 30, 2011. The project closed on June 30, 2012, four years after the original closing date. The LGDG system also received financing through a basket fund from bilateral and multilateral donors which are commingled with IDA funds at the point of transfer to the LGAs. It is estimated that a total of \$350 million was disbursed over the seven year period (FY 2004-2011).

The review finds that the project development objectives are substantially relevant at appraisal and at closing. The project supported the government's Poverty Reduction Strategy Paper (PRSP) and the Local Government Reform Policy. In its PRSP, the government articulated that poverty reduction can be achieved faster if the poor are given voice, and empowerment and accountability can be achieved through decentralization among others. The government recognized that fundamental changes in LGA institutional and fiscal processes are key to effective and sustainable service delivery. The objectives are substantially relevant to the Country Assistance Strategy 2001-2003 strategic areas of engagement of public sector reform and institution building. The project objectives remained relevant and consistent with the Joint Country Assistance Strategy for Tanzania (2011-2015).

The project's design is rated Modest. The twin objectives are clear and measurable. The objectives reflect the bundling of two disparate operations due to limited IDA resources that subsequently posed implementation challenges. Broadly, the inputs, outputs and outcomes are plausibly linked. Providing unconditional grants and capacity building to qualified LGAs are appropriate interventions to strengthen the nascent intergovernmental transfers system and improve accountability. There is also a plausible link between community infrastructure investments and access. However, there is an issue of attribution between activities supporting property valuation and outcomes of improve revenue performance. The risks associated with government commitment and capacity were underestimated. The linkages and synergies with other Bank operations were not well articulated and hence did not materialize, especially with respect to Tanzania Social Action Fund (TASAF) and Dar Es Salaam Water and Sewerage Authority (DAWASA).

¹ RALG was moved from the President's Office to the Prime Minister's Office (PMO) in 2005 and the change was reflected in the project's restructuring in 2009. Available project documentations do not provide any explanation for the transfer to the PMO.

There were also no attempt to establish synergies with operations that support broader public sector reforms including the Public Sector Reform Project and Poverty Reduction Strategy Credits 4-8² to leverage and reinforce its impact.

The efficacy of the first objective-strengthen fiscal decentralization, and improve accountability in the use of local government resources and in the management of intergovernmental transfer systems is rated Modest. While the percentage of participating LGAs meeting the minimum conditions was exceeded (97 percent) compared to the target (80 percent), the percentage of LGAs receiving unqualified audits was partially achieved and time to affect the transfers was lower than expected. The efficacy of the second objective-increase access to infrastructure and services and improve revenue performance for sustainable operations and maintenance is rated Substantial, on balance. The impact evaluation on the CIUP which looks at both access and reduction in time to access infrastructure services showed an improved trend in several indicators. The proportion of household connected to paved/gravel roads increased from 3.7 percent to 27.9 percent in the project area, which is statistically significant gain compared to the non-project area. The time reduction to access infrastructure services is also statistically significant. While the increased access to street lights was statistically significant there was also evidence that streetlights were not working and suggests a sustainability issue. The percentage increase in the number of enterprises in the surveyed area did not show significant improvements. The increase in own source revenue was achieved, but it cannot be fully attributed to the project.

The project's efficiency is rated Modest. At appraisal, an economic analysis covering sub-component 2i was conducted with an estimated economic rate of return (ERR) of 20 percent and a Net Present Value of \$3.6 million at 12 percent discount rate. The economic justification for component 1 was based on the assumption that a unified transfer mechanism would be cost effective and would contribute to efficient resource allocation. At closing, an alternative ex-post estimate was calculated for sub-component 2i with an ERR of 15 percent (albeit the assumptions were not provided). While the LGDG system for capital and capacity building grants are put in place, the envisaged uniform and integrated intergovernmental transfer system was not fully realized. Government contributions and transfers were frequently delayed. Implementation delays were also experienced under component 2, with delayed contributions from local communities and incomplete contributions from the Dar es Salaam Local Authorities (DLAs). There were cost overruns under component 2i due to contract management and procurement issues. There was also reported use of government grants for non-eligible LGAs. Overall, these factors contribute to a modest efficiency.

The quality of monitoring and evaluation is rated Modest. The Monitoring & Evaluation design was rudimentary and the indicators were either output or process oriented, or too ambitious to be attributable to the project, or difficult to measure and monitor. Baseline data collection was not completed at approval. Some key indicators and targets were adjusted or retrofitted at restructuring to reflect the scale up during implementation with the additional financing, and indicators were dropped that were not measurable. New

² Although envisaged to promote the effectiveness of decentralization, none of the PRSCs had prior actions to this effect (PPAR for Tanzania PRSCs 1-8, Annex D, para 54).

indicators were also introduced, but not monitored. A planned impact evaluation was carried out and used to report on the impact of the CIUP interventions on the project area (versus the non-project area). It is unclear whether the information collected during implementation was used as basis for decision making.

The risk to development outcome is rated Significant. The government and the Bank's interest to decentralization as originally envisaged in the Letters of Sector Policy has waned and this is reflected in the current CAS progress report (2012-2015) where there is no mention of decentralization at all. The Bank has ended its support to the core LGDG in 2010 and the last donor contribution ended in 2014. At the time of the IEG mission it seems that no donor funding commitment is forthcoming for the core LGDG. The operation and maintenance for the community services may not be adequately funded. The Bank's follow on operation using a Program for Results lending instrument provides support to the urban sector window for 18 select urban LGAs, and not to the core LGDG for all LGAs.

The Bank's performance at entry is rated Moderately Satisfactory. The design of the LGDG system was underpinned by the Bank's sector work and extensive consultation with a broad range of stakeholders including the donor community and government counterparts. It builds on the work in Uganda on decentralization. It attempted to build synergies with other ongoing operations including TASAF which already had a large constituency in the Bank and the government, and worked directly with communities and in parallel with LGAs. However, the Bank introduced a complex design that did not take into account the differences in capacity across LGAs and within the PMO-RALG. Given the nascent system in a limited capacity environment, the Bank decided to scale up quickly that was contrary to the experience of Uganda that piloted first before scaling up. The synergies with other Bank operations were not clearly articulated and did not materialize.

Bank performance at supervision is rated Moderately Satisfactory. The Bank had two task team leaders during the entire implementation period. The second team leader was based in the field which allowed for more frequent interaction with the client and other donor partners. There was intensive supervision which is well recorded in Aide Memoires. The baseline data were not immediately collected during implementation and it took four years to retrofit the M&E and establish baseline and targets. Some indicators that were introduced or retrofitted during the restructuring were not monitored. A separate Mid-Term Review was conducted for social and safeguards and provided extensive recommendations which were not followed up nor recorded in any project documentation. On balance, the rating for Bank supervision is rated Moderately Satisfactory.

The Government performance is Moderately Unsatisfactory. The government demonstrated its commitment with its implementation of LGRP 1 and 2, albeit with mixed results. It issued two letters of sector policy in conjunction with the approval of the original credit and the additional financing articulating its commitment for a unified and intergovernmental transfer system (LGDG) and increased government contribution to the system. However, the transfer system was only applied for capital and capacity building but not for recurrent transfers. There were delays in government transfers, or cases of

transferring resources to ineligible LGAs. Support for the LGDG rests with PMO-RALG but did not extend to a broader constituency including the Ministry of Finance, or to the Parliament and leadership.

The Implementing Agency performance is rated Moderately Satisfactory. The two implementing agencies demonstrated commitment to the project and showed persistence and resolve to address implementation challenges. However, there were financial management, procurement and contract management issues and problems of timely data collection.

There are five lessons from this operation as follows:

- First, decentralization is a long and complex process and requires strong and sustained government commitment and broad-based support and buy-in from key stakeholders in government to ensure its successful implementation. While donor support is important, no amount of technical and financial support from donors can compensate for the lack of broad-based commitment from government. In the case of Tanzania, the decentralization agenda was initiated by the dominant political party and the president, but with the change in administration in 2005, support evolved and became limited. Government commitment was not sufficiently broad to encompass the diverse range of stakeholders. The government has a primary interlocutor through PMO-RALG but buy-in of the decentralization reforms did not include key stakeholders in government including the President, Parliament and the Ministry of Finance.
- Second, rapid scaling up poses challenges to capacity. In a nascent intergovernmental transfer system where capacity is uneven and resources are limited, covering a small number of LGAs and building on success before scaling up (versus spreading quickly to respond to political pressure) is preferable and needs careful sequencing. In the case of Tanzania, the decision to do it gradually at the outset was warranted but the subsequent rapid expansion to all LGAs created challenges that seriously strained capacity and credibility of the system.
- Third, the decentralization agenda cuts across sectors. Hence, interventions within and across sectors and in support of broader government public sector reforms need to be well coordinated to guarantee real synergies and impact. In the case of Tanzania, decentralization is led by the urban sector and the project's design and implementation did not include explicit linkages to broader public sector reform interventions such as Public Sector Reform Project and general budget support that could have improved the project's impact and sustainability.
- Fourth, the provision of unconditional capital grants transfers along with recurrent grants is critical to ensure sustainability of assets created under the project. In the case of LGSP, the separate provision of capital grants from the recurrent grants, combined with lack of clear accountability for O&M, increase the likelihood that development outcomes are not sustained.

- Fifth, improving local revenue raising opportunities enhance fiscal autonomy of decentralized local government authorities; however, political support and clarity of accountability are needed to make it work. In the case of LGSP, enhanced local revenue performance was included in project design, but it did not gain much traction due to lack of political support and buy-in from key stakeholders, and lack of clarity in accountability between local and national level authorities.

Nick York
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1. Background and Context

1.1 **Tanzania has a checkered history of decentralization.** It is marked by pendulum swings since the country's independence in 1961, from a strong local government inherited during the colonial period to its abolition after independence and subsequently its revival in the 1980s propelled by wider political and economic liberalization. The Local Government Act of 1982 re-introduced a system of local government in Tanzania. More than 10 years after, and following the first national multi-party elections in 1994, the government embarked on a major local government reform and decentralization by devolution starting with the civil service reform in 1996. This was followed by the 1998 Policy Paper on Local Government Reform which articulated a vision of a system of autonomous local governments. The government's reform agenda was implemented in two phases through the Local Government Reform Program (LGRP). (See Appendix B for details). The program was extremely ambitious and complex, given the country context.

1.2 The government's motivation to decentralize could be construed as originally driven by the dominant political party, *Chama Cha Mapinduzi* (CCM) and the President in the 1980s and 1990s. The move to decentralize was also driven by other factors including political and demographic. In the 1980s, the country was transitioning from a socialist regime to multi-party system and the donors had less influence at that time. During this period, there was also a wave of decentralization in Sub-Saharan Africa (and in other parts of the developing world) that gained momentum driven by several factors including the transition to relatively democratic institutions, urbanization and other political dynamics. However, with the change in administration in 2005, support for decentralization evolved and became limited to the technocratic interlocutors of the Prime Minister's Office, Regional Administration and Local Government (PMO-RALG) with the donors and did not include broad-based buy-in from other key stakeholders including the executive, Parliament and other members of the bureaucracy (Tidemand and Dege, 2010, page 28).

1.3 There is other evidence that there may be strong political support for local level goods and services provision based on election results, quite different from the formula-based allocations supported by LGRP. According to this alternative view, districts where only a few votes are needed to secure a winning margin of victory in Parliamentary elections emphasize private goods allocations such as maize vouchers and road construction (where contracts can be privately captured through corruption). Districts where larger coalitions of voters are needed to win emphasize public goods provision such as better health care access, and residential electrification. According to this analysis, supported by the World Bank after the 2005 election, measures for poverty, productivity, and population, the basis for formula based allocations supported by LGRP, generally had an insignificant effect on public and private goods allocations at the subnational level (Buena de Mesquita and Smith, 2015).

1.4 The donors' influence on LGRP is reflected in their funding commitments to LGRP which overshadowed the government's contribution to the program, the "hands-on" involvement in monitoring the process and the numerous and extensive external assessment of LGRP commissioned by donors. The donors supported LGRP since 2000

through a common basket fund with contributions from major bilateral and multilateral donors³ including the United Nations Development Fund, and the European Union. A donors group called the Local Development Partners Group (LG-DPG) consisting of Belgium, Finland, Germany, Japan, the Netherlands and Sweden, the United Nations Capital Development Fund and the World Bank, played an active and vocal role in the decentralization process .

1.5 The government’s policy on decentralization in 1998 was implemented through the Local Government Reform Program. It covered two phases: LGRP 1 (1998-2008) and LGRP 2 (2009-2014). The government’s policy on decentralization was promulgated in the 1998 Policy Paper on Local Government Reform which articulated to devolve substantial political, administrative and financial powers to LGAs to provide for their mandated services. Prior to the 1998 policy statement, substantial public sector changes already occurred with the civil service reforms in 1996. The passing of the Regional Administration Act abolished the implementing roles of the regions which had until then been responsible for the implementation of local development projects (Tidemand and Dege, 2010). LGRP 1 envisaged to reform four main policy areas including political decentralization, financial decentralization, administrative decentralization and changed central-local relations. In 2010, an assessment of LGRP 1 concluded that it did not achieve its core objective of increasing the share of the national budget transfers to local government and in harmonizing different funding channels. The performance of LGRP1 was rated “unsatisfactory” by the annual General Budget Support (GBS) review team⁴ in 2008 and 2009 (Tidemand and Msami, 2010)⁵.

1.6 The second Local Government Reform Program (LGRP II) 2009-2014 was envisaged to mainstream local government reform in all central and sector ministries. According to government documents, the objective of LGRP II was to “support autonomous and empowered LGAs as primary and accountable lead actors of socio-economic development, public service delivery and poverty reduction in their areas of jurisdiction” and its success would be measured by progress towards “effective and empowered LGAs” (PMO-RALG:1). LGRP ended with mixed results with donors withdrawing support through the basket fund. It is noted that while there was increased intergovernmental transfers to LGAs in Tanzania during the project period, the CPIA rating of public administration declined (from 3.5 in 2005 to 3.0 in 2010). A similar trend is also observed with respect to World Governance Indicators (WGI). For instance, Tanzania’s indicators on government effectiveness deteriorated.

1.7 The Local Development Support Project (LGSP), the operation under review, was the first Bank operation that directly supported the government’s LGRP. It encompassed the two phases of the LGRP and supports the fiscal decentralization component of the program. LGSP’s design builds on the Bank financed operation in

³ Includes Netherlands, Finland, Belgium, Canada, Germany, Sweden, Finland and Ireland.

⁴ Review of the GBS performance was conducted annually by Government and GBS partners.

⁵ LGAs in Tanzania has three main sources of financing: recurrent block grants (wages and other charges) subventions (including basket funds) and capital development funds. The formula based allocation was intended to cover both recurrent and capital, but this was applied only to capital grants under the LGDG system and parts of the other charges due to continued centralization of the LGA staff allocation. Tidemand and Msami, 2010.

Uganda (Local Government Development Program) that was already well advanced in implementation. LGSP was envisaged to put in place an intergovernmental transfer system that is discretionary and performance based and implemented with other donors support through the basket fund. It was also expected that the system would integrate the fragmented, area-based support provided to LGAs. The World Bank also supported other operations that were aligned with government's broader reform program.⁶

1.8 The Bank joined other donors in supporting LGRP, albeit belatedly in 2004, by providing financing through LGSP with other donors through the basket fund.⁷

Prior to Board approval, the government issued in 2004 a Letter of Sector Policy on Fiscal Devolution of the Budget and Local Government Capacity Building in conjunction with the Bank's approval of LGSP. The Letter of Sector Policy stated the government's "vision of a unified transfer system which brings together programs and grants, recurrent and development funding, donor and government funding into one process" (PAD, page 73). It was further envisaged that within 4-5 years, the Local Government Capital Development Grant (LGCDG) System (and later renamed Local Government Development Grant or LGDG) would be the main vehicle for the transfer of funds (both capital and recurrent) including sector programs, under one operational window using common modalities for planning, budgeting, accounting, reporting and auditing. Another Letter of Sector Policy was issued by the GoT in 2006 in conjunction with the Additional Financing for the LGDG system. It restated its commitment to the harmonization of sector programs with the LGDG system and increased funding from the government sources so it would be fully funded and absorbed by the time the LGSP is completed.

1.9 While expressing support for the core local government intergovernmental transfer system, the Bank and others donors also supported sector windows that contravened the original intent of a unified intergovernmental system.⁸ Sector windows were introduced in FY07/08. Despite going against the original intent of the government's Letter of Policy on Fiscal Devolution, the Bank team noted at the Mid-term Review (MTR) that this was the "best harmonization possible under current circumstances."⁹ In addition, the Bank continued to support the second Tanzania Social Action Fund (TASAF II) which preceded LGSP and worked directly with communities and in parallel with local governments.¹⁰ The Bank ended its support of the core LGDG system with its last transfer in September/ December 2010¹¹ ahead of the LGSP official

⁶ The operations include: Public Service Reform Program (1999); and Accountability, Transparency, Integrity Project (2006) See Appendix for details.

⁷ A Letter of Sector Policy is typically not required for an investment lending operation.

⁸⁸The Letter of Sector Policy envisaged to integrate sectors into the LGDG system. Sector windows introduced in FY07/08 include agriculture, rural water and urban. These windows are ring-fenced for sector allocation (and hence not discretionary). Sector windows are expected to use the formula based and performance based system used under LGCDG (MTR, Aide Memoire, 2008).

⁹ Ibid, page 7. Sector windows allocation accounted for more than half of the total grant allocations (capital plus sector windows) in FY 07/08 and FY08/09.

¹⁰ TASAF II was approved in 2004 at the same time as LGSP with a significant Bank commitment (\$220 million).

¹¹ Project documents provided different versions of end date: one in September 2010 (ISR) and the other December 2010 (Aide Memoire).

closure (June 2012) by reallocating a significant amount of funds from the component supporting the LGDG system to the urban component of the project (component 2).

1.10 Donor support for LGRP ended in 2014, but some exited earlier. No follow-on donor support to LGRP is expected at the time of the IEG mission.¹² As of September 2014¹³, government contributions for LGRP was Tsh 2.3 billion (or 7.5 percent) while the development partner (DP) contributions amounted to Tsh 28.4 billion (or 92.5 percent). The DP commissioned forensic audits on procurement and use of per diem (see SIDA report) seemed to have accelerated the donor communities exit from LGRP, with the exception of the Japan International Cooperation Agency (JICA), which is still providing technical assistance with PMO-RALG in revising the Annual Assessment of the LGDG system.

1.11 The second objective of LGSP supported access to infrastructure and services in unplanned areas in Dar es Salaam, and enhanced revenue mobilization. The urban objective of LGSP builds on two previous urban operations: Urban Sector Engineering Project (USE) (\$16.7 million) and Urban Sector Rehabilitation Project (USRP) (\$135.2 million). The objective of USE was to create an effective institutional and financial framework for the urban sector and prepare a sustainable urban infrastructure investment and maintenance program. USRP was a follow on to USE. Its objective was to assist the Government of Tanzania to achieve sustainable economic development and urban poverty alleviation through: rehabilitation of basic infrastructure and expansion into high priority under-served areas in eight project towns, Dodoma and Dar es Salaam and (ii) improvement of urban local government management and financing capacity.¹⁴ Bank support for the urban component continues with several successor operations including the Tanzania Strategic Cities Project which was prepared under LGSP, the Urban Local Government Strengthening Program using the Program for Results (PforR) instrument and Dar Es Salaam Metropolitan Cities Project (see Annex B for details).

2. Objectives, Design, and their Relevance

Objectives

2.1 The original project development objectives (PDOs) were to: (a) strengthen fiscal decentralization, and improve accountability in the use of local government resources and in the management of intergovernmental transfer systems; and (b) increase access to infrastructure and services in the Unplanned Areas of Dar es Salaam and improve revenue performance for sustainable operation and maintenance. The objective statement in the Development Credit Agreement (DCA, p. 22) is the same as in the Project Appraisal Document (PAD, p. 7 and Annex 1, p. 32).

¹² End dates of support to LGRP: Sweden (2011/12); Ireland (2011); Netherlands (2012/13); Germany (2012/13); JICA (2013/14); Finland (2013/14). Source: Core Reform Group/Status of Reform Programs.

¹³ The DP contributions were provided by six bilaterals: Sweden, Ireland, Netherlands, Germany, Japan (JICA) and Finland. The World Bank's contribution ended in 2010.

¹⁴ USE was rated Satisfactory and USRP was rated Highly Satisfactory by IEG.

2.2 With the Additional Financing (AF) approved in 2006 and with parallel support from other DPs through the basket fund, the number of beneficiary Local Government Authorities (LGAs) for the first part of the objective was expanded to all 132 LGAs from the original target of 41 LGAs.¹⁵

2.3 A first level restructuring approved by the Board on June 24, 2009 introduced changes to the first part of the PDO and to some key performance indicators. The revised objectives per the amendment to the DCA and Additional Financing Agreement are as follows: "The objectives of the Project are to (a) strengthen fiscal decentralization, improve accountability in the use of local government resources, and improve management of intergovernmental transfers and demand-driven urban investments; and (b) increase access to infrastructure and services in the unplanned areas of Dar es Salaam and improve revenue performance for sustainable operations and maintenance.

2.4 The changes in the PDO and key performance indicators did not materially change the substance and intent of the project. Hence, this evaluation will not undertake a split rating.

Relevance of Objectives

2.5 The twin objectives were aimed to support two of the government's challenges. The first objective was to support the government's fiscal decentralization agenda, with specific focus on consolidating support to local government authorities that was at the time fragmented and area-focused. It was envisaged that by supporting the nascent fiscal transfers to LGAs, allocative efficiency would improve and LGAs would be more accountable and improve service delivery. The first objective was highly supportive of the government's decentralization policy launched in 1998 particularly LGRP phase 2. The second objective was also substantially relevant to the government's priorities. The project objectives remained relevant and consistent with the Joint Country Assistance Strategy for Tanzania (2011-2015).

2.6 The project supported the government's Poverty Reduction Strategy Paper (PRSP) and the Local Government Reform Policy. In its PRSP, the government articulated that poverty reduction can be achieved faster if the poor are given voice, and empowerment and accountability can be achieved through decentralization among others. The government recognized that fundamental changes in LGA institutional and fiscal processes are key to effective and sustainable service delivery. The objectives are substantially relevant to the Country Assistance Strategy (CAS) FY 2001-2003 strategic areas of engagement of public sector reform and institution building. The project objectives continue to be relevant to the CAS FY 2012-2015 and to the Government's Five Year (2010/2011- 2014/2015) National Growth and Poverty Reduction Strategy, MKUKUTA II. The objectives, however, reflect two disparate objectives that could have been supported in separate projects. It would have been better to separate the two objectives given the weak institutional capacity and the nascent reform agenda on

¹⁵ The AF was intended only for components 1 and 3 to cover the financing gap due to limited IDA credit resources at the time of approval. AF funds for components 1 and 3 were later re-allocated to component 2 to cover cost overruns.

intergovernmental transfers system. Overall, the relevance of objectives is rated substantial.

Design

2.7 The project consisted of three components:

- **Component 1:** Support for Local Government Capital Development Grant System (appraisal estimate US\$35.0 million; original plus AF US\$ 131 million; revised cost at restructuring, \$93.2 million; actual estimated cost at closing, \$113.3 million). This component was to support an overall Local Capital Development Grant (LCDG) system which is also being supported by the government and bilateral development partners. The LCDG system includes: (i) Capital Development Grant (CDG) and (ii) Capacity Building Grant (CBG). This component has two objectives consistent with the two elements of the LCDG: (i) to strengthen the delivery of infrastructure and services by participating LGAs through the provision of CDGs to finance subprojects, and (ii) to strengthen the capacity of LGAs through the provision of CBGs to finance subprojects targeted at the implementation of capacity building plans.
- **Component 2:** Dar es Salaam Upgrading and Institutional Strengthening (appraisal estimates, US\$17.3 million; revised cost at restructuring, \$39.5 million; actual cost, \$ 17.3 million). This component had two sub-components: (i) community infrastructure upgrading program (CIUP), a community driven infrastructure upgrading program targeted at unplanned areas in Dar es Salaam, and (ii) Local Revenue Enhancement /operations and maintenance (O&M) Program to improve local O&M systems and local revenue collection to support O&M expenditure. CIUP had two phases: phase 1 covered 16 communities while phase 2 covered 15 communities. Phase 2 was envisaged to cover identical activities and increase the project's coverage from 10 to 20 percent of the unplanned areas of the city.
- **Component 3:** Support to President's Office-Regional Administration and Local Government (PO-RALG) (appraisal estimates US\$ 6.6 million, Additional Financing \$8.4 million; revised cost at restructuring, \$15.5 million; actual cost, \$8.4 million). This component supported the President's Office-Regional Administration and Local Government (PO-RALG) in the implementation, monitoring, evaluation and audits of the project and the transfer program supported by component 1 while building the capacity of PO-RALG to execute the functions as part of their routine activities. In the restructuring of 2009, PO-RALG was transferred and renamed Prime Minister's Office (PMO)-RALG and subsequent discussion will refer to PMO-RALG.

Relevance of Design

2.8 The twin objectives are clear and measurable. However, the project comprises two separate operations that were joined together due to limited IDA resources at the time

of preparation, with no direct link between the two objectives.¹⁶ The interventions supported by the project are plausibly linked to outcomes. Providing unconditional grants and capacity building for qualified LGAs are the appropriate interventions to strengthen the nascent intergovernmental transfer system and improve accountability. The introduction of community participation in the upgrading component was innovative, and not done in previous operations. The two windows under the first component (capital and capacity building) were envisaged to allow the LGAs to learn by doing with the resources to manage and the tools to build capacity at national and local levels. There is also a plausible link between the activities supported by the project and the expected outcomes of increased access to infrastructure and improve revenue performance for sustainable operation and maintenance.

2.9 However, the risks associated with government commitment and capacity at local and central levels were underestimated and the proposed mitigating measures were insufficient. While capacity risk was acknowledge at the time of preparation, it was rated modest.

2.10 The mainstreaming of oversight function to PMO-RALG had taken place as envisaged to build in-house capacity and enhance ownership; however, the complex and innovative nature of the operation proved to be a challenge in light of its limited and evolving capacity. For instance, the annual performance assessment which was deemed to be complex, had to be outsourced at high cost. In interviews during the IEG mission, the high cost was deemed by some stakeholders as not sustainable over time while others would argue that outsourcing guarantees independence of the process. The oversight of infrastructure sub-projects also proved to be a challenge for the city of Dar es Salaam given its limited experience. The underestimation of costs led to cost overruns and implementation delays. The limited capacity of LGAs to manage their own resources was to be addressed through the provision of capacity building grants but LGAs were not fully equipped to develop meaningful capacity building plans and the fragmented and small size of the CBG did not make a significant impact on improving capacity of LGAs.

2.11 Linkages and synergies with other Bank supported projects which were envisaged, were not well established and affected the delivery of services. The IEG mission was informed that the water connection that was promised to be delivered by DAWASA/Dar es Salaam Water and Sewerage Company did not materialize which was expected to provide water supply for the wards supported under the project. The envisaged collaboration and harmonization with TASAF II which worked directly with local communities did not materialize. Interviews with Bank staff suggest that there was no real follow up during implementation. Collaboration with LGSP would have further enhanced development effectiveness. The project design was also not explicitly linked to other elements of the LGRP such as the civil service reform; nor was there clear articulation of synergies with Bank-supported operations including the Public Service Reform Program and the Poverty Reduction Strategy Credits that were under implementation at the time of this project's preparation. Finally, the implementation of

¹⁶ Per interview with the project team and information in project documents (please refer to ICR and ICR Review). For instance, the ICR (p. 6) states the following "There were no direct linkages between Components 1 and 2 and this is reflected by the Project's 'two PDOs.'"

the government's LGRP, which was a critical assumption underpinning the project's success, proved to be a challenge and had mixed results. On balance, the relevance of design is rated Modest.

Implementation Arrangements

2.12 There were two implementation entities reflecting the two disparate project objectives. The Regional Administration and Local Government which used to be under the President's Office (PO-RALG), was moved to the Prime Minister's Office, (PMO-RALG) was responsible for implementing components 1 and 3 and providing oversight, monitoring and evaluation of the LGDG system. Its responsibility included the conduct of annual performance assessments of the LGAs, to ensure LGAs compliance with national policies, procedures and guidelines. However, actual works were undertaken by the LGAs which met the access criteria. PMO-RALG coordinated the activities across the various components. Initially, a Project Support Unit located within PO-RALG coordinated the implementation of component 1. At the end of June 2007, the management of component 1 was mainstreamed within PMO RALG. Dar es Salaam LGAs were responsible for the implementation of component two. Two project support teams were established to support PMO-RALG and Dar es Salaam LGAs at the beginning of the project, which were later dissolved and mainstreamed.

2.13 There were two committees established under component 1. The LGDG Steering Committee provided policy oversight over the LGDG system composed of Permanent Secretaries from PMO-RALG, Ministry of Finance and relevant sector ministers. The role of the Steering Committee was to ensure that participating LGAs meet the required eligibility criteria, approve allocation and make decisions on appeals made by LGAs. The LGDG Technical Committee was chaired by the Deputy PS PMO-RALG and relevant heads of departments from PMO-RALG, Ministry of Finance, participating DPs and other relevant key stakeholders. The role of the Technical Committee was to review the work plans, budgets and reports, review the annual performance assessment of LGAs and make recommendations to the Steering Committee. There were also quarterly technical reviews and a Local Government Capacity Building Consultative Group.

3. Implementation

3.1 At appraisal, the total project cost was \$60.80 million, which comprised of financing from IDA (\$52 million), Borrower (\$6.5 million) and LGAs/Communities (\$2.30 million). The project was approved on November 30, 2004 and became effective on April 13, 2005. An Additional Financing of \$98 million was approved in June 15, 2006, bringing the total IDA credit financing to \$150 million. The Mid-Term Review (MTR) was originally planned for November 30, 2006, and actually held on January 14, 2008.

3.2 The original closing date was June 30, 2008. At the time of AF, the project's closing date was extended by three years to June 30, 2011 to allow the LGCDG system to become fully established. Following the MTR, the project's closing date was again extended to June 30, 2012. The project closed on June 30, 2012, four years after the original closing date.

3.3 Actual total project cost (estimated at the time of ICR) was \$149.9 million including \$141 million from IDA, and \$3.9 million from Borrower contribution, which was lower than planned, and \$4.9 million from LGAs/communities contribution, which was higher than originally planned. The evolution of the project cost is summarized in the table below.

Table 3.1. Project Cost by Component (Original and Actual) in million US dollars (US\$)

Component	Original 1/	Original plus AF 2/	Revised 3/	Actual Est. 4/	Actual/Planned (original +AF)
1. Support for LGCDG	35.0	131	93.2	113.3	0.9
2. Dar Es Salaam Upgrading and Institutional Strengthening	17.3	17.3	39.5	17.3	1.0
3. Support to PO RALG/PMO-RALG	6.6	8.4	15.5	8.4	1.0
Total Baseline cost	58.9	156.7	148.2	139.0	0.9
Physical Contingencies	0.8	0.8		0.8	1.0
Price Contingencies	1.1	1.3		1.3	1.0
Unallocated			4.6		
Total Project Cost	60.8	158.8	152.8	141.1	0.9
<i>Financier</i>	<i>Planned</i>	<i>Original plus AF</i>	<i>Revised</i>	<i>Actual Est.</i>	<i>Actual/Planned</i>
IDA	52.0	150.0	148.2	141.1	0.9
Borrower	6.5	3.9	8.8	3.9	1.0
LGAs/Communities	2.3	4.9	4.1	4.9	1.0
Total	60.8	158.8	161.1	149.9	0.9

Sources: 1/PAD (Annex 3); 2/Project Paper on AF (Annex 1); 3/Restructuring Project Paper (Cover Note, Table 3); 4/Annex 1 (ICR). Revised column: only refers to Credit re-allocation only (original and AF); 5/Actual disbursed: \$47.1 million (original credit); \$87.7 million (AF); Actual total amount disbursed IDA net of cancellation: \$135 million (\$47.1 million, original credit; \$87.7 million, AF) per Client Connection of October 3, 2015.

3.4 The Board-approved restructuring on June 24, 2009 consisted of modifications to the project development objectives and associated outcome targets, refinements of the results framework including dropping the household sanitation activities, reallocation of funds from component 1 to component 2 and a one year extension of the project's closing date. The DCA and the AF legal agreements were amended accordingly. The amended legal agreements included changes in the revised objectives and key performance indicators as well as modifications of the implementing agency from the PMO-RALG.

3.5 A significant amount of the IDA credit (\$23.4 million or 15 percent of total IDA credit) was reallocated from component 1 and from unallocated funds (contingencies) to component 2 to finance cost increases of phase 1 (\$4.1 million) and to finance phase 2 of component 2 (\$20.8 million). According to the Restructuring Paper, the strong parallel donor support for the LGDG system resulted in lower than projected IDA financing envisaged for component 1 and hence substantial cost savings have accrued which allowed for a significant amount of reallocation to component 2. The restructuring also included an allocation of \$7.5 million for the preparation of the Tanzania Strategic Cities Project. In effect, IDA support for component 1 ended in FY10/11 (December 2010). Since IDA's exit from the core LGDG, the government and other DPs continued providing support, including from Belgium, Finland, Germany, Ireland, Japan, the Netherlands and Sweden. The Bank team explained that the additional funds from the DPs were more than sufficient to meet the requirements of the LGAs. Since the allocation is formula-driven and performance-based, there is only a limited amount of funds that can be allocated at any given time, and providing more could pose challenges to the absorptive capacity of the LGAs.

3.6 The LGDG system also received financing from bilateral development partners including Netherlands, Finland, Ireland, Belgium, Canada and Germany in the amount of \$220 million from 2004 to 2011. The indicative distribution of financing by source is provided in the table below. In sum, a total of \$350 million was provided to the LGDG system of which the basket funds accounted for roughly 75 percent of financing to the capital grants system while the Bank provided the remaining 25 percent to the LGDG system. Approximately \$30 million were provided to the capacity building grant.

Table 3.2. Core LGDG – Disbursement by Source (US\$)*

FY	LGDG coverage			IDA	Total
	(number of LGA beneficiaries)	GOT	DP		
2004-2005	47		4.5		4.5
2005-2006	113	5.3	18.2	16	39.5
2006-2007	121	4.7	24.6	16.1	45.4
2007-2008	121	2.1	41.6	14.7	58.4
2008-2009	132	4.4	41.6	22.2	68.2
2009-2010	132	33.5	43	15.3	91.8
2010-2011	132	16.7	46.7	12.5	75.9
Total		66.7	220.2	96.8	383.7

Sources: ICR/Borrower ICR, p.38. Cumulative Annual Assessment Report 2004/05-2006/07 (July 2008); World Bank LGSP Aide Memoire (March 2009); Annual LGDP Reports (2008/09-2010/11).

* Note: The amount are indicative due to incomplete and inconsistent project documentation. GOT contributions refer only LGDG grants through its regular budget process.

3.7 The government was often late in transferring funds for capital and capacity building grants to LGAs. Although performance improved over the course of implementation, this was a problem that persisted all throughout implementation. At the MTR, it was discovered that the government's own funds in the amount of \$18 million

that was purportedly transferred to the LGDG system was in fact transferred to non-qualifying LGAs to construct office buildings and for other purposes. This issue was raised by the Bank team with the government, which ended the practice.

3.8 The community driven nature of component 2 (community infrastructure) and managed by DLAs was a departure from previous Bank financed operations, contributed to initial implementation delays which continued throughout implementation. Delays were attributed to several factors including procurement challenges, contract management, and counterpart contributions. There were delays in collecting counterpart contributions from local communities which slowed implementation. While communities provided their contribution, the Dar Es Salaam Local Authorities (DLAs) did not fully pay their contribution and used IDA funds instead, which was deemed ineligible at the time of the MTR and had to be refunded by the government after the project closed.

3.9 The local revenue enhancement¹⁷ and O&M sub-component envisaged to improve local revenue generation to support O&M expenditures also experienced implementation delays and difficulties more than the other components due to lack of institutional capacity and political buy-in to undertake the exercise (identification and valuation of property in unplanned settlements). The exercise had to be put on hold due to a decision of the government to temporarily assign the own-source revenue collection to the Tanzania Revenue Authority (TRA) which was later reversed. Several issues were flagged during the MTR including its implementation as a stand-alone project activity without central/national level oversight, and confusion on the allocation of responsibilities between DLAs and TRA. No further documentation was available to suggest that that these issues were resolved. However, subsequent urban operations financed by the Bank have commissioned analytical work on own source revenue mobilization and incorporated elements of it in their project design.

3.10 The community infrastructure activities resulted in resettlement. The payment to project-affected people was delayed, but no follow up was made after the resettlement. The implementation of the safeguards actions was assigned to the Ministry of Environment which had limited capacity, albeit the DLAs have their own social and environmental staff who provided oversight on a day-to-day basis.

Design and Implementation of Monitoring and Evaluation (M&E)

3.11 The original design of the project's M&E was rudimentary, consistent with the standards at the time of preparation and Board approval. Outcome indicators and targets were provided for objective 1 (strengthen fiscal decentralization), albeit the outcomes are in terms of outputs and processes. For the second objective (increase access to infrastructure and services in unplanned areas) the outcome indicators were provided, but not the baseline and targets. The data collection strategy as specified in the PAD was generic and the responsibility for data collection, monitoring and reporting was not clearly specified. The M&E design did not provide for monitoring how the intergovernmental transfer system supported by the project would translate into improved

¹⁷ Own source revenue in Tanzania accounted for 3-5 percent of LGAs total revenues (2006), and slightly increased to 7 percent in recent years.

quality and access to public services at the local level, which is the overarching argument for putting in place a formula and performance-based intergovernmental transfer system.

3.12 Because the project neglected to institute a functioning monitoring system, it relied on an impact evaluation planned and executed by the World Bank's Development Impact Evaluation (DIME) unit to assess the effect of the CIUP on several socio-economic outcome indicators, including income and consumption. The IE used a difference-in-difference strategy; consequently, it collected baseline and end-line data on those indicators from both treatment and comparison areas. Even so, most baseline data and targets were not available at the time of approval.

3.13 During implementation, there were delays in completing the M&E framework and collecting the baseline data and targets that were not completed at approval. The time of Additional Financing would have been a good opportunity to update and retrofit and reflect the scaling up of the LGA coverage and results. In fact, it was only at MTR and at the restructuring in 2009, four years into implementation, that the results framework was retrofitted to provide baseline and targets for most of the key performance indicators. Intermediate indicators were also introduced to track progress during implementation. The outcome indicators for community infrastructure were considered ambitious and not measurable and were further refined, yet some baselines and targets continue to be missing and data were not collected all throughout implementation. In the end, the Bank had to rely on the impact evaluation of 2014 for reporting results on community infrastructure. These weaknesses limited the Borrower's and Bank's ability to monitor progress of the project during implementation and provide real-time information to influence decision making. At completion, the intermediate indicators that were introduced in 2009 were not reported in the ICR, which contained little information on intermediate results and outputs. In all, utilization of the M&E system seems limited.

3.14 **Fiduciary Issues.** Overall, there were no significant issues identified in procurement. Independent Procurement Review and Value for Money Audits were carried out in 2007 and 2009. There were procurement delays in the early part of the project particularly with respect to component 2i) which affected implementation due to project cost under-estimation which led to project re-allocation, and extension of project completion. However, several financial management issues were identified during implementation and raised at the MTR including use of 100 percent IDA when GoT was expected to provide counterpart contributions. Subsequently, the Bank requested for a refund of the amount involved (\$1.71 million).

3.15 **Safeguards.** The project was classified as Category B and triggered environmental assessment and involuntary resettlement (PAD, p.25). An Environmental and Social Management Framework (ESMF) and a Resettlement Policy Framework (RPF) were approved by Government and the World Bank and disclosed in-country on August 25, 2004 and in the Bank's Infoshop on August 31, 2004.

3.16 According to project documentation, a total of 1,040 houses/structures/businesses across all three target municipalities were affected in the process of implementing CIUP II. A total of T Sh 2.931 million was paid as compensation to those affected. A separate environmental and social safeguards mission was undertaken during the MTR. The MTR

mission rated the implementation of social and environmental safeguards for components 1 and 3 satisfactory while the implementation of component 2 was rated moderately satisfactory. The mission identified several issues including: (i) need to enhance safeguards monitoring system especially on the post-compensation review and follow up with project affected persons (PAPs) (ii) inadequate coordination between projects that deal with the same population; (iii) weak capacities for carrying out environmental and social safeguards work. An Implementation Support Mission of April 2012 noted that all Project Affected Persons (PAPs) have been fully paid and there are no outstanding payments. A follow-up with Bank staff during the mission suggests that there were no further follow up actions after the MTR mission including to ascertain that the PAPs are at least restored to their pre-project socio-economic status.

4. Achievement of the Objectives

OBJECTIVE 1

Strengthen fiscal decentralization, and improve accountability in the use of local government resources and in the management of intergovernmental transfer systems:

4.1 The first objective was to be achieved by providing discretionary capital development grant (CDG) transfers to local government authorities based on a formula-based performance criteria (minimum access conditions plus performance indicators). A capacity building grant was also provided to help LGAs build their capacity to access and manage the CDG.

4.2 To access the capital grant, local government authorities were required to meet a set of minimum conditions (MC) to provide sufficient safeguards for the use of funds and ensure that LGAs comply with the government's statutory and administrative requirements. The MCs covered six functional areas with indicators associated with each: (i) financial management (indicators include: timely submission of final accounts; functional internal audit arrangements; no adverse audit report or confirmed financial management priorities; (ii) fiscal capacity- co-funding obligations met; (iii) planning and budgeting (including timely approval of development plans and budgets); (iv) procurement (including functional tender board) (v) council's functional processes, including regular council meetings; and (vi) project implementation, monitoring and evaluation capacity (annual and quarterly work plans, progress report). In addition to the MCs, a set of performance indicators were added to provide incentives for performance improvement by adjusting the yearly size of the grant as a reward for good performance and sanction for poor performance. The performance indicators were qualitative and sought to evaluate performance in key functional areas and compliance with statutory and administrative requirements (see Annex D for details). The determination of access and eligibility was conducted every year through an Annual Assessment supervised by PMO-RALG.

4.3 The CDG, however, was not the only performance based grants available to LGAs. Sectoral grants were also established with MCs and performance indicators to access sector specific grants which were both funded by the Bank, GoT and other

development partners. Given the significant contribution of the basket fund vis-à-vis the IDA credit, the outputs and outcomes could not be fully attributed to the project but to the broader basket fund supporting the LGDG system.

Outputs

4.4 An intergovernmental transfer system for capital development grants (CDG) was established and operational. The system was formula driven and performance based and replaced a system of allocation that was off budget, ad hoc, area based, fragmented and unpredictable.

4.5 The number of participating Local Government Authorities (LGAs) increased from 41 LGAs to 132 LGAs consistent with the targets set at the time of approval and Additional Financing. Financing was provided both by the Bank's LGSP and the parallel basket funds supported by several development partners. Non-discretionary transfers to LGAs increased from \$4.5 million covering 47 LGAs in FY2004-05 to \$75 million or 132 LGAs in FY2010-11.

4.6 An annual assessment was put in place as basis for providing capital grants. The annual assessment was outsourced at a cost of \$ 1.0 million per annum and was considered unsustainable by some key stakeholders, albeit others consider the independent assessment critical to the integrity of the process. At the time of the IEG mission, PMO-RALG with support from JICA has reviewed and provided recommendations to streamline and mainstream the Annual Assessment process.

4.7 However, the original intent to consolidate and integrate a fragmented system, as expressed in the letters of sector policy, was not fully realized since the system only included the capital grants but not the recurrent grants. During implementation, sector windows were introduced; which followed the performance-based orientation but posed challenges in terms of fragmentation of monitoring and reporting. By project completion, while the performance-based intergovernmental transfer architecture was put in place, it faced several challenges including: adherence to the allocation formula; reliability, completeness and timeliness of transfers; and completeness and timeliness of reports on local fund utilization.”¹⁸ Support for the nationwide intergovernmental system provided by the Bank and other donors through a parallel financing was concluded, which left the government with limited resources to sustain the system that has been established. Only a selected number of urban LGAs are currently supported by the Bank under a follow-on operation using a new Bank instrument of program for results (PforR).

Outcomes

4.8 The objective of strengthened fiscal decentralization as measured by the percentage of participating LGAs meeting the minimum conditions increased from a base of 53 percent in 2004/05 to 97 percent in 2010/11, exceeding the target of 80 percent. However, meeting the minimum conditions alone is not sufficient to ensure a strengthened fiscal decentralization because the conditions apply only for the capital

¹⁸ Summary of Borrower's ICR, page 44 of the ICR.

grant transfers, but not the recurrent transfers, which are still highly centralized. A separate transfer mechanism for capital and recurrent have implications on the effectiveness of LGAs in service delivery. The additional sector windows, which are managed in parallel with the LGDG core also reduces the effectiveness of the LGDG system. According to the mid-term review of the LGDP, while there was an attempt from PMO-RALG to have all grants incorporated into one system, it had insufficient influence to coordinate. Interviews with government counterparts suggest that having several windows reflects the preferences of the donor community.

4.9 In addition, the minimum conditions *per se* as measure of performance for LGAs to access funds was deemed static and did not take into account progress in improvements in the LGAs with respect to those minimum conditions. In other words, when LGAs meet the minimum conditions there are no further incentives to further improve from the base case. It was also noted that some of the conditions are not sufficient nor appropriate to ensure sustained or improved LGA performance.

4.10 The improved accountability dimension in the use of local resources as measured by the percentage of participating LGAs receiving unqualified audit opinions was partially achieved. This percentage increased from 20 percent to 54 percent by project closure, but is well below the target of 80 percent (revised).¹⁹

4.11 For the indicator: improved management of intergovernmental transfer process as measured by the time taken to affect the transfers from central government to LGAs, the percentage of transfers made within the first 30 days of each quarter had reached 44 percent from a baseline of zero versus the original and revised target of 100 percent. However, having achieved the end of project target does not reflect the variability of the transfers and that the budgeted amount had not always been received in full and/or time and are too little compared to the needs of local government authorities. On balance, given all the above considerations, the achievement of this objective is rated **Modest**.

OBJECTIVE 2

Increase access to infrastructure and services in the Unplanned Areas of Dar es Salaam and improve revenue performance for sustainable operations and maintenance.

4.12 This objective was to be achieved by providing financing to (i) a community infrastructure upgrading program (CIUP) targeted at unplanned and underserved areas in Dar es Salaam in communities spread across the three municipalities²⁰ and (ii) a Local Revenue Enhancement/O&M program to improve its own-source revenue performance to ensure that LGAs in Dar es Salaam are able to maintain their infrastructure investments supported under this operation and other infrastructure assets of the LGAs.

¹⁹ There was no target at approval.

²⁰ Temeke, Kinonodni and Ilala

Outputs

4.13 The table below provides the outputs from the CIUP.

Table 4.1. CIUP Outputs: Phase 1 and 2

<i>Type</i>	<i>Unit</i>	<i>Total</i>	<i>Phase 1</i>	<i>Phase 2</i>
Two way roads	Km	40.4	25.5	14.9
One way roads	Km	57.8	23.9	33.9
Footpaths	Km	26.3	15.6	10.7
Road side drains	Km	132.6	69	63.6
Culverts	lines	548	229	319
Pedestrian crossing	number	3153	2133	1020
Solid waste containers	number	83	48	35
Street lights	number	2780	1150	1630
Public toilets	Number	24	7	17
Trunk/storm drains	Km	8.6	5.6	3

Source: Aidan Coville and Yu-hsuan Su (2014).

4.14 The sub-component on revenue enhancement and O&M, financed the preparation of the valuation rolls, identified and valued a total of 495,790 potentially taxable properties for the three Municipal Councils (compared to the target of 160,000 properties on the valuation rolls of the 3 Municipal Councils). It also completed an asset management strategy for the three Municipal Councils.

Outcomes:

4.15 A quasi-experimental impact evaluation (IE)²¹ was conducted to measure the impact of the CIUP intervention using a simple difference-in-difference method. The analysis compared the baseline and end-line data between the treatment group (project area) and the comparison group (non-project area).

4.16 Overall, the impact evaluation on the CIUP showed an improved trend in several outcome indicators. The exception was the rate of enterprise creation. (Note the original indicators were refined at restructuring in 2009 due to measurement problems. The changes did not materially alter the intent of the operation, hence no split rating is undertaken. See section 2). Below are the main results on PDO indicators:

- **An increase in the proportion of streets in the surveyed area and reachable by paved and access roads.** The IE finds that the proportion of households connected to a paved/gravel road increased from 3.7 percent to 27.9 percent in the treatment area. This increase marks a highly statistically significant 23.5 percent

²¹ See Aidan Coville and Yu-hsuan Su, 2014; summarized in ICR, Annex 10.

gain over the comparison area which only grew from 4.0 percent to 4.7 percent (Table 4.2).

- **A reduction in the proportion of surveyed households which experienced flooding in premises.** The proportion of households that was flooded in the past 12 months reduced slightly from 24.5 percent to 21.6 percent in treatment area. However, the proportion also declined in the comparison area, from 34.0 percent to 17.8 percent. This implies that the comparison area reduced the proportion by 13.2 percent more than that of treatment area. The ICR noted that there were substantial flood events prior to the end-line data collection that may have skewed the reporting.
- **The percentage increase in the number of enterprises in the surveyed area.** Overall, the IE did not show significant improvements in employment or business entrepreneurship. The IE showed that 60 percent of households in the CIUP communities had enterprises at the start of the project and dropped to 57 percent at the end of the project. The comparison group showed a similar trend, so there is no attributable change in employment.

4.17 This evaluation also looks at the effect on access to infrastructure as well as the time it takes households to access that infrastructure. The tables below show that the time reduction resulting from provision of water supply, toilets and water drainage as well as access to good roads, drainage and street lights in project areas was statistically significant. The access to water and toilets were identified as top priority by communities for both the project and non-project areas.

Table 4.2. Time Reduction (in Minutes) to Infrastructure Access

	Baseline		Endline		DiD		
	COMP	TREAT	COMP	TREAT	COEF	SE	SIG
Water supply	3.39	4.14	3.17	1.10	-2.81	0.76	***
Toilets & sewerage	3.44	0.75	13.30	3.06	-7.55	1.99	***
Garbage/waste disposal	1.96	1.62	2.66	0.54	-1.79	0.79	**
Electricity	15.79	16.13	0.59	0.55	-0.38	2.52	
Community roads	5.20	2.80	1.24	0.78	1.95	1.06	*
Water drainage	4.15	2.22	7.87	0.77	-5.17	1.26	***
Street lights	11.71	5.46	15.91	2.39	-7.26	2.47	**
School	11.00	10.45	9.67	7.60	-1.52	1.71	
Health clinic	14.51	16.55	10.42	9.61	-2.84	2.23	

Source: Aidan Coville and Yu-hsuan Su (2014).

Comp = Comparison area, Treat = Treatment area, Coef = Coefficient, SE = standard error, Sig = significant level, *** statistically significant at 1 percent level, ** significant at 5 percent level, * significant at 10 percent level

Note 1: The questionnaire asks "How long does it take you to go from your house to the nearest ...?" for each item, and these are measured in minutes.

Note 2: Endline data has "primary school" and "high school," and time reduction to school took the average of these two types of school.

Note 3: The standard error is clustered at ward level.

Table 4.3. Access to Infrastructure

	Baseline		Endline		DiD		
	COMP	TREAT	COMP	TREAT	COEF	SE	SIG
Access to Good Road	0.04	0.05	0.04	0.28	0.23	0.03	***
Usable Road During Rainy Season	0.83	0.87	0.69	0.86	0.13	0.05	**
Drainage Outside Home	0.13	0.14	0.13	0.40	0.26	0.05	***
Drainage Working Properly	0.11	0.11	0.09	0.29	0.20	0.05	***
Number of Floods	1.43	0.51	0.37	0.43	0.98	0.41	**
Street Lights	0.01	0.03	0.02	0.43	0.39	0.08	***
Street Lights Working	0.00	0.03	0.01	0.19	0.15	0.07	**

Source: Aidan Coville and Yu-hsuan Su (2014).

Comp = Comparison area, Treat = Treatment area, Coef = Coefficient, SE = standard error, Sig = significant level, *** statistically significant at 1 percent level, ** significant at 5 percent level, * significant at 1 percent level

Note 1: "Access to good road" takes the value 1 if the access to your dwelling is either gravel or paved/tarmacked, and otherwise zero.

Note 2: All variables are binary except for the number of floods, and the number is proportion of households responded as 1.

Note 3: For the binary outcome, Difference-in-Difference results are based on linear probability model without controlling for covariates. The standard error is clustered at ward level.

4.18 With respect to the revenue performance for O&M, according to data provided by the Dar es Salaam Local Government Authority (DLA), own-source revenue increased by 154 percent (in nominal terms) between 2005 and 2011, well above the target of 50 percent. At the time of MTR, the target was already achieved despite the fact that the activities associated with this objective had experienced implementation delays. Hence, attribution for this indicator is an issue. The impact evaluation found that there were a substantial number of streetlights (funded by the project) that were not working by end of the project which suggest that the O&M funds are not sufficiently robust to maintain the newly completed community assets. The other indicator to measure the achievement of this objective is in terms of increasing the proportion of unrestricted transfers and DLA revenues from 6.6 percent to 8 percent. According to the data provided by the DLAs, the proportion essentially remained the same in 2011/2012.

4.19 On balance, taking into account all the above considerations, the achievement of objective 2 is rated **Substantial**.

5. Efficiency

5.1 At appraisal, the economic analysis covered component 1 and sub-component 2(i). The economic justification for component 1 was based on the assumption that a unified transfer mechanism would be cost effective and would contribute to efficient

resource allocation. An economic rate of return for sub-component 2i was estimated at 20 percent with a Net Present Value of \$3.6 million equivalent at a 12 percent discount rate.

5.2 At closing, an alternative ex-post evaluation estimate was calculated for sub-component 2i with an ERR of 15 percent (albeit the detailed analysis/assumptions were not provided). An intergovernmental transfer system for capital grants was in place but the envisaged harmonized and unified system was not fully realized, which could have resulted in lower transaction costs and improved allocative efficiency. The proliferation of sectoral windows for capital grants (and separate from recurrent grants) diminished the allocative efficiency expected from a single, unified transfer system.

5.3 Government counterpart contributions and transfers were frequently delayed and there were implementation delays due to contract management issues under component 2. Funds had to be reallocated due to cost overruns in component 2 due to underestimation and limited capacity in procurement and contract management. Overall project implementation took longer than expected by one year (excluding the time needed to accommodate the additional financing). On balance, the project's efficiency is rated **Modest**.

6. Ratings

Outcome

The review finds that the project development objectives are substantially relevant at appraisal and by closing. The project supported the government's PRSP and the Local Government Reform Policy. In its PRSP, the government articulated that poverty reduction can be achieved faster if poor are given voice, and empowerment and accountability can be achieved through decentralization among other policies. The government recognized that fundamental changes in LGA institutional and fiscal processes are key to effective and sustainable service delivery. The objectives are substantially relevant to the Country Assistance Strategy 2001-2003 strategic areas of engagement of public sector reform and institution building, and is also relevant and consistent with the Joint Country Assistance Strategy for Tanzania (2011-2015).

6.1 The project's relevance of design is rated Modest. The twin objectives are clear and measurable. Broadly, the inputs, outputs and outcomes are plausibly linked. Providing unconditional grants and capacity building to qualified LGAs are appropriate interventions to strengthen the nascent intergovernmental transfer system and improve accountability. There is also plausible link between community infrastructure investments and access. However, there is an issue of attribution between activities supporting property valuation and outcomes of improve revenue performance. The risks associated with government commitment and capacity were underestimated. The linkages and synergies with other Bank operation were also not well articulated and hence did not materialize. The objectives reflect the bundling of two disparate operations due to limited IDA resources that subsequently posed implementation challenges.

6.2 The achievement of the first objective is rated Modest, while the achievement of the second objective is Substantial. The efficacy of the first objective: strengthen fiscal decentralization, and improve accountability in the use of local government resources and in the management of intergovernmental transfer systems, is rated Modest. While the percentage of participating LGAs meeting the minimum conditions was exceeded (97 percent) compared to the target (80 percent), the percentage of LGAs receiving unqualified audits was partially achieved and time to affect the transfers was lower than expected.

6.3 The efficacy of the second objective: increase access to infrastructure and services and improved revenue performance for sustainable operations and maintenance, is rated Substantial on balance. The impact evaluation on the CIUP which looks at both access and reduction in time to access infrastructures showed an improved trend in several indicators. The proportion of household connected to paved/gravel roads increased from 3.7 percent to 27.9 percent in the treatment (project area). This increase in the treatment area is statistically significant gain of 23.5 percent compared to the non-project area which grew from 4.0 percent to 4.7 percent. The time reduction resulting from provision of water supply, toilets and water drainage as well as access to good roads, drainage and street lights in project areas was also statistically significant. However, the percentage increase in the number of enterprises in the surveyed area did not show significant improvements. While the increase in own source revenue has achieved its target, it cannot be fully attributed to the project.

6.4 The project's efficiency is rated Modest. At appraisal, an economic analysis covering component 1 and component 2i was conducted with an estimated economic rate of return of 20 percent and a Net Present Value of \$3.6 million at 12 percent discount rate. There an ex-post re-calculation of the economic analysis of component 2i but using a different methodology. The envisaged uniform and integrated intergovernmental transfer system was not fully realized, with the introduction of sector specific capital grants transfers. The government's contributions and transfers were frequently delayed. Implementation delays were also experienced under component 2, with delayed contributions from local communities and incomplete contributions from the DLAs. There were cost overruns under component 2i) due to contract management and procurement issues. Overall, these factors contribute to a modest efficiency.

6.5 On balance, the overall outcome is rated Moderately Satisfactory.

Risk to Development Outcome

6.6 The risk to development outcome is rated Significant. The government and the Bank's interest to decentralization has waned and it is reflected in the current CAS progress report (2012-2015) where there is no mention of decentralization at all. The Bank has ended its support to the core LGDG in 2010 and the last donor contribution ended in 2014. At the time of the IEG mission it seems that no donor funding commitment for the core LGDG is forthcoming. The operation and maintenance for the community services supported under CIUP may not be adequately funded. However, it is acknowledged that the Bank is supporting the urban sector window through a follow on operation using another lending instrument (Program for Results) and covering 18 urban

LGAs. The government, through the PMO-RALG, is revisiting and streamlining the Annual Assessment to make it more aligned with capacity on the ground. On the second objective, three urban operations are supported by the Bank (Urban Local Government Strengthening Program, Tanzania Strategic Cities Project and Dar Es Salaam Metropolitan Project) to address the rapid urbanization in Tanzania and in Dar Es Salaam in particular through improving access to infrastructure services and strengthening local government own source revenue mobilization. The focus on urban areas has implications on how the government will continue to support LGAs outside the urban areas. Based on several interviews, the IEG mission could not establish whether the government has a clear strategy on this issue.

Bank Performance

QUALITY AT ENTRY.

6.7 The Bank carried out extensive preparation work using a consulting consortium in preparing the operation. The design of the intergovernmental transfer system aspect of the operation was underpinned by the Bank's sector work on decentralization and consultations with a broad range of stakeholders within the Bank, the government counterparts and development partners. The intergovernmental system design builds on other ongoing operations in Sub-Saharan Africa, particularly on the Uganda Local Government Development Program. The preparation was initiated in 2001 and the project was presented to the Board only in 2004. There was extensive consultation with key stakeholders including the development partners who at that time were supporting the area-based programs which would be folded into the proposed LGDG. There was also collaboration and coordination with other donors who supported the government's program through a parallel basket fund. On the government side, there was strong collaboration with PMO-RALG. There was also collaboration with Ministry of Finance, who issued the Letters of Development Policy, although in hindsight the collaboration with the latter could have been stronger. The preparation of LGSP was not explicitly linked to Bank operations that supported broader government reforms. For instance, there were no references to the Bank financed Public Sector Reform Program nor to the PRSCs which were active at the time of the project's preparation. Although efforts were taken to articulate and build synergies with other ongoing Bank operations including TASAF, DAWASA and subsequently with the Accountability, Transparency and Integrity Program, the envisaged harmonization and synergies did not materialize.

6.8 On the infrastructure objective, the Bank's work was informed by previous urban operations in Tanzania, and builds on the Bank's long history and experience of supporting urban development operations. However, this operation introduced innovations such as community participation, which was not done before in previous operations. At preparation, there was serious consideration to drop the revenue enhancement sub-component because of doubts on LGA's willingness and capacity to collect and the rationalization of own source revenues in 2003/2004. The decision to proceed was based on commitment by central government to develop an integrated

intergovernmental framework; nonetheless this sub-component was acknowledged in the project document²² (PAD, page 15) as having substantial risk of not being effective.

6.9 The design of the annual assessment is complex, well beyond the capacity of the PMO-RALG and had to be outsourced at great expense (\$1 million per annual assessment). On the one hand, the outsourcing to independent consultants guaranteed credibility of the process; on the other hand, there was concern expressed both by government counterparts and development partners that outsourcing and its cost implications may require sustained donor support and hence may not be sustainable over time. The subsequent mainstreaming did not produce the same quality results and credibility was not maintained. At the time of the IEG mission, JICA was taking the lead in revising and streamlining the annual assessment that could be undertaken in-house and in the process in seeking support from other donors to provide support to LGDG. The design of the M&E was rudimentary and did not provide baseline information at entry (see section on M&E for details). On balance, quality at entry is rated Moderately Satisfactory.

QUALITY AT SUPERVISION

6.10 Bank performance at supervision is rated Moderately Satisfactory. The Bank had two task team leaders during the entire implementation period. The second task team leader was based in the field which allowed for more frequent interaction with the client and other donor partners. At MTR, the Bank used a team of experts to provide independent assessments of the project's performance. However, the project ratings belie the fact that the baseline data were not immediately collected during implementation and it took four years to retrofit the M&E and establish baseline and targets. Some indicators that were introduced or retrofitted during the restructuring were not monitored. At the MTR, the Bank team raised the issue of the Implementing Agency's failure to provide data outputs and outcomes that had been requested since 2005. A separate MTR was conducted for social and safeguards and provided extensive recommendations which were not followed up nor recorded in any project documentation. On balance, the rating for Bank supervision is rated Moderately Satisfactory.

Borrower Performance

6.11 The government's commitment with its implementation of LGRP 1 and 2, showed mixed results. It issued two letters of sector policy in conjunction with the approval of the original credit and the additional financing articulating its commitment for a unified and intergovernmental transfer system (LGDG) and increased government contribution to the system. However, mid-way through the implementation of the core LGDG, sector windows were introduced which contravened the intent of a unified system. However, it should be noted that the introduction of sector windows reflect in part the preferences of donors. The transfers system was only applied for capital and capacity building but not for recurrent transfers. There were delays in government transfers, and cases of transferring resources to ineligible LGAs. Support for the LGDG seemed to be limited to PMO-RALG and did not extend more broadly to the Ministry of Finance. By the end of

²² Development levy and livestock cess were abolished in 2003 and business license fees in 2004.

the operation, as it coincides with the closing of the second phase of LGRP, government commitment and donor support was at a cross road. While there was some progress in advancing fiscal decentralization for capital development grants, the other aspect of decentralization for recurrent expenditures, remained stalled.²³ By the time LGRP was winding down, governance issues related to the management of LGRP funds were brought to the fore and resulted in declining and eventually halting any donor support to the LGRP. On balance, Borrower performance is rated Moderately Unsatisfactory.

Implementing Agency performance

6.12 The Implementing Agency performance is rated Moderately Satisfactory. There were two implementing agencies (IAs): (i) PMO-RALG implemented components 1 and 3 and (ii) the DLAs were responsible for implementing component 2. Both IAs demonstrated commitment to the project and showed persistence and resolve to address implementation challenges. However, there were issues on M&E, financial management, procurement and contract management throughout implementation that impacted project implementation. Both IAs experienced persistent problems in collecting and reporting on outputs and outcomes. Despite repeated follow-up for three consecutive missions, the IAs were unable to provide output data (number of projects/type/capacity building) and outcome data on service delivery. Contract management problems in the implementation of component 2 was characterized by a pattern of long contract extensions and poor oversight. At MTR (2008, page 8), the Bank team discovered that the government development grants were used to provide transfers to non-qualifying councils to construct office buildings in newly created councils. The government agreed to end the practice and provide an accounting of LGDG funds to the Bank and other Development Partners. The MTR also reported two missing Financial Management Reports (FMRs) from PMO-RALG ending September 2005 and another one dated March 2007.

Monitoring and Evaluation

6.13 The quality of monitoring and evaluation is rated Modest. The M&E design was rudimentary and the selection of indicators was either output or process oriented, or too ambitious to be attributable to the project, or difficult to measure and monitor. Baseline data were not collected for some key indicators. Some key indicators and targets were adjusted or retrofitted at restructuring to reflect the scale up during implementation and drop indicators that were not measurable. New indicators were also introduced, but not monitored. A planned impact evaluation was carried out and used to report on the impact of the CIUP interventions on the project area (versus the non-project area). It is unclear whether the information was used as basis for decision making.

²³ According to the World Bank's Public Expenditure Review of 2011, the government's spending for LGAs was projected to increase but remained well below the government's target of 25 percent. Actual LGA spending in 2011 was 20.4 percent of the government's budget, a .5 percent increase from previous year. Recurrent expenditures in 2011 accounted for 22.5 percent which mostly represented salary adjustments and new hires, while development budget was 15.2 percent. The allocation between recurrent and capital has almost remained the same from previous years (2007-2008 to 2010-2011). Inequality of budget allocation among LGAs and high dependence on foreign sources to finance LGA development activities persist. (pp. 44-45).

7. Lessons

7.1 The lessons from this operation are as follows:

- First, decentralization is a long and complex process and requires strong government commitment and broad-based support and buy-in from key stakeholders in government to ensure its successful implementation. While donor support is important, no amount of technical and financial support from donors can compensate for the lack of commitment from government. In the case of Tanzania, the decentralization agenda starting in the 2000s was driven by the donors and government commitment was not sufficiently broad to encompass the diverse range of stakeholders. The government had a primary interlocutor through PMO-RALG but buy in of the decentralization reforms did not include key stakeholders including the President, Parliament and the Ministry of Economy and Finance.
- Second, rapid scaling up poses challenges to capacity. In a nascent intergovernmental transfer system where capacity is uneven and resources are limited, covering a small number of LGAs and building on success before scaling up (versus spreading quickly to respond to political pressure) is preferable and needs careful sequencing. In the case of Tanzania, the decision to do it gradually at the outset was warranted but the subsequent rapid expansion to all LGAs created challenges that seriously strained capacity and credibility of the system.
- Third, the decentralization agenda cuts across sectors. Hence, interventions within and across sectors and in support of broader government public sector reforms need to be well coordinated to guarantee real synergies and impact. In the case of Tanzania, decentralization is led by the urban sector and the project's design and implementation did not include explicit linkages to broader public sector reform interventions such as Public Sector Reform Project and general budget support that could have improved the project's impact and sustainability.
- Fourth, the provision of unconditional capital grants transfers along with recurrent grants is critical to ensure sustainability of assets created under the project. In the case of LGSP, the separate provision of capital grants from the recurrent grants, combined with lack of clear accountability for O&M, increase the likelihood that development outcomes are not sustained.
- Fifth, improving local revenue raising opportunities enhance fiscal autonomy of decentralized local government authorities; however, political support and clarity of accountability are needed to make it work. In the case of LGSP, enhanced local revenue performance was included in project design, but it did not gain much traction due to lack of political support and buy-in from key stakeholders, and lack of clarity in accountability between local and national level authorities.

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Annex A. Basic Data Sheet

LOCAL GOVERNMENT SUPPORT PROJECT (IDA-40030, IDA-40031)

Key Project Data (amounts in US\$ million)

	Appraisal estimate	Actual or current estimate	Actual as % of appraisal estimate
Total project costs	150.00	150.00	100
Loan amount	150.00	147.48	98.32
Cancellation	0.00	6.43	0.00

Cumulative Estimated and Actual Disbursements

	<i>FY05</i>	<i>FY06</i>	<i>FY07</i>	<i>FY08</i>	<i>FY09</i>	<i>FY10</i>	<i>FY11</i>	<i>FY12</i>	<i>FY13</i>
Appraisal estimate (US\$M)	1.06	23.49	48.76	66.68	81.19	118.39	138.49	150.01	150.01
Actual (US\$M)	1.07	22.55	49.66	69.24	84.52	123.77	142.92	151.18	149.20
Actual as % of appraisal	100.36	100.26	101.83	104.10	104.54	103.20	100.78	99.46	99.46

Date of final disbursement: October 31, 2012

Project Dates

	Original	Actual
Initiating memorandum	02/14/2001	07/30/2002
Negotiations	05/12/2002	08/19/2004
Board approval	10/15/2002	11/30/2004
Signing	01/10/2005	01/10/2005
Effectiveness	04/13/2005	04/13/2005
Closing date	06/30/2008	06/30/2012

Staff Inputs (staff weeks)

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY01		46.87
FY02		164.44
FY03		139.26
FY04		439.55
FY05		257.11
Total:		1047.23
Supervision/ICR		
FY05		149.26
FY06		295.10
FY07		215.43
FY08		281.90
Total:		941.69

Annex B. Decentralization Timeline and Evolution of Bank Support

Table B.1. Decentralization Timeline: (to be completed)

Time period	Milestones/Phases
First Phase 1962-1967	<p data-bbox="415 489 1247 518">Post-colonial Emergence of Local Government Authorities (LGAs)</p> <ul data-bbox="415 522 1419 856" style="list-style-type: none"> <li data-bbox="415 522 1419 751">• At the time of independence in 1961, Tanzania already had a “fairly well developed system of autonomous and partially democratic local government authorities.” The basic architecture of a local government administration was brought forth under the Local Government Ordinance of 1953 (see USAID Tanzania Case Study). During the late colonial period, the election of local councils was gradually introduced both in urban and rural areas, with urban areas having more substantive administrative and financial functions. <li data-bbox="415 756 1419 856">• Post-independence Tanzania witnessed strong support for local governments. In 1962, significant changes were introduced by the TANU government including extension of modern district councils throughout the country.
1967-1976	<p data-bbox="415 873 846 903">Decline and Abolition of the LGAs</p> <ul data-bbox="415 907 1419 1178" style="list-style-type: none"> <li data-bbox="415 907 1419 1003">• Decrease in local government revenues and increased demand to provide for services led to decline in local government capacity and poor performance, along with tightened control of local government finances and earmarked transfers. <li data-bbox="415 1008 1419 1071">• In 1972, elected local governments were abolished and replaced by appointed/deconcentrated administrations at regional and district levels. <li data-bbox="415 1075 1419 1178">• Ujamaa or villagization was introduced and legislation for village level assemblies was passed in 1975 and carried over into local government legislation in the 1980s.
Second Phase (1976-1982)	<p data-bbox="415 1194 776 1224">Re-introduction of the LGAs</p> <ul data-bbox="415 1228 1419 1467" style="list-style-type: none"> <li data-bbox="415 1228 1419 1291">• Major laws were passed and intergovernmental relations and Local Government System was put in place: <li data-bbox="415 1295 1419 1325">• The Local Government Act (both for District and Urban Authorities), 1982 <li data-bbox="415 1329 1419 1358">• The Local Government Finances Act, 1982 <li data-bbox="415 1362 1419 1392">• The Local Authorities Election Act, 1979 <li data-bbox="415 1396 1419 1467">• While LGAs were introduced, they remained without substantial resources or clear mandates.
Third Phase (1994-2014)	<p data-bbox="415 1484 760 1514">Second Wave of Devolution</p> <ul data-bbox="415 1518 1419 1759" style="list-style-type: none"> <li data-bbox="415 1518 1419 1547">• Civil service reform program initiative, 1994 <li data-bbox="415 1551 1419 1581">• Substantial retrenchments of regional administration, 1996 <li data-bbox="415 1585 1419 1648">• Regional Act passed in 1997. The Act specifies that regions no longer play a major role in implementation of capital projects and delivery of services. <li data-bbox="415 1652 1419 1715">• Policy Paper on Local Government Reform, 1998. It spells out how decentralization affects four main policy areas. <li data-bbox="415 1719 1419 1759">• Local Government Reform Program: Phase 1 (1999-2008); Phase 2 (2009-2014).

Source: Tidemand and Dege. Comparative Assessment of Decentralization in Africa: Tanzania Desk Study, 2010.

Table B.2. Evolution of Bank Support for Decentralization and Related Operation

Board Approval/Closing	Project Name/Project Number	Objective (s)	Actual Project Cost/Commitment (in million USD)	IEG Rating
1996/31-Dec-2004	Urban Sector Rehabilitation Project (USRP); (P002808)	To assist the Government of Tanzania to achieve sustainable economic development and urban poverty alleviation through (i) rehabilitation of basic infrastructure and expansion into high priority under-served areas in eight project Towns, Dodoma and Dar es Salaam; and (ii) improvement of urban local government management and financing capacity.	\$ 135.2 million	Highly Satisfactory
	Urban Sector Engineering (USE)	To create an effective institutional and financial framework for the urban sector and prepare a sustainable urban infrastructure investment and maintenance program . The Project covered Dar es Salaam and eight towns.	\$16.7 million	Satisfactory
11-30-2004/6-30-2013	Tanzania Second Social Action Fund	The original objective of the	\$261.80	Satisfactory

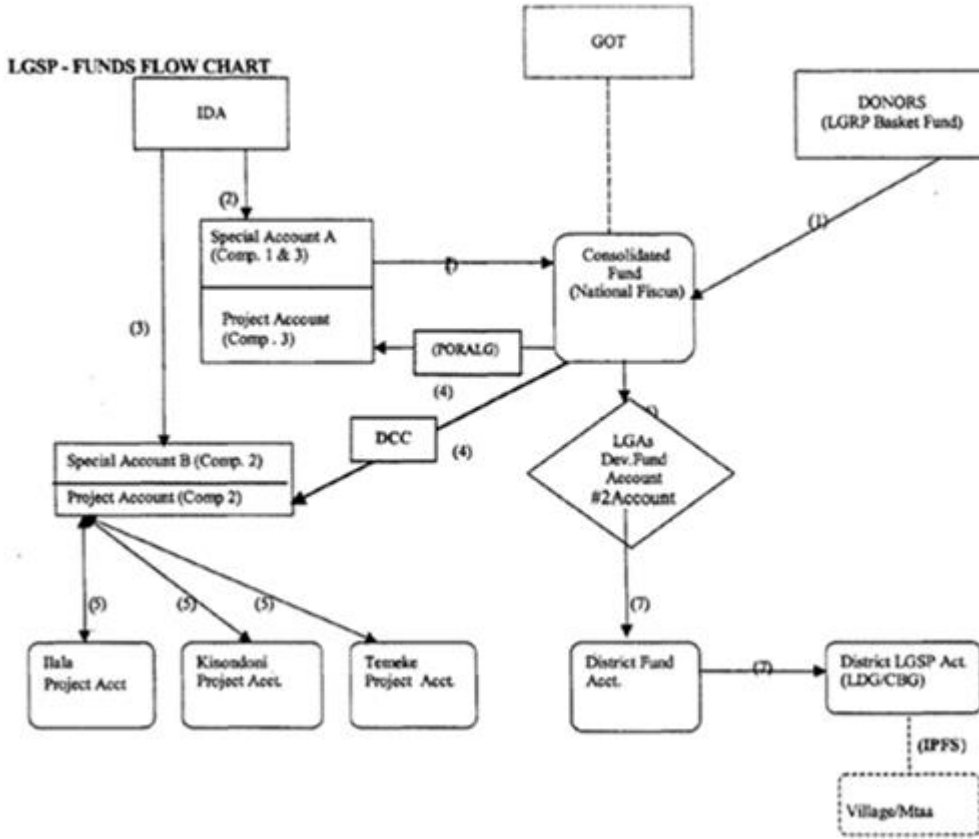
Board Approval/Closing	Project Name/Project Number	Objective (s)	Actual Project Cost/Commitment (in million USD)	IEG Rating
	(TASAF II)/(P085786)	<p>project, according to the Legal Agreement (2004), was: to empower communities to access opportunities so that they can request, implement and monitor the delivery of services through Subprojects that contribute to improved livelihoods and are linked to the attainment of the associated Millennium Development Goals (MDGs) indicators specified in the Borrower's Poverty Reduction Strategy.</p> <p>Revised objective: to improve access of beneficiary households to enhanced socio-economic services and income generating opportunities.</p>		
12-03-1999/12-31-2007	Public Service Reform Project /(P060833)	i) improve efficiency in the management of public expenditures; (ii) strengthen public service capacity for the management of	\$88.78 million	Moderately Unsatisfactory (PPAR rating)

Board Approval/Closing	Project Name/Project Number	Objective (s)	Actual Project Cost/Commitment (in million USD)	IEG Rating
		<p>economic growth and poverty reduction; (iii) improve the delivery of services to meet with public expectations of value, satisfaction and relevance; (iv) improve accountability, transparency and resource management in service delivery; and (v) test the effectiveness and sustainability of the [Distance Learning Center] DLC as a knowledge-sharing network which can strengthen the capacity of officials and managers in the public and private sectors to design, plan and manage economic and social development.</p>		
5-09-2006/3-31/2012	Accountability, Transparency and Integrity Program (P070544)	To contribute to improved access to judicial and legal services and to the accountable and transparent use of public financial resources.	\$103.7 million	Moderately Unsatisfactory

Board Approval/Closing	Project Name/Project Number	Objective (s)	Actual Project Cost/Commitment (in million USD)	IEG Rating
27-May-2010/31-Dec-2017	Tanzania Strategic Cities Project/(P111153)	To improve the quality of and access to basic urban services in Participating LGAs.	\$109.8 million	Satisfactory (DO)/ISR Rating (Active)
23 Oct. 2012-31 Dec. 2018	Tanzania Urban Local Government Strengthening Program/(P118152)	To improve institutional performance for urban service delivery in Program Urban Local Government Authorities.	\$255 million	MS/ISR Rating (Active)
02-March-2015/31-Dec-2020	Dar Es Salaam Metropolitan Cities Project/ (P123134)	To improve urban services and institutional capacity in the Dar es Salaam Metropolitan Area and to facilitate potential emergency response.	\$330 million	Satisfactory (DO); ISR Rating (Active)

Annex C. Funds Flow

LGSP FUNDS FLOW MECHANISM



Annex D. List of Persons Met

Mr. Jaime Biderman, former Sector Manager (at appraisal)
Mr. Roland White, Lead Urban Specialist, GSURR, World Bank
Mr. Barjor Mehta, Lead Urban Specialist (TTL at closing), GSURR, World Bank
Mr. Matthew D. Glasser, former Task Team Leader (at appraisal)
Mr. Andre Bald, Program Leader, AFCE1, World Bank
Ms. Chiara Bronchi, Lead Public Sector Specialist, GGODR, World Bank
Mr. Denis Biseko, Senior Public Sector Specialist, GGODR, World Bank
Mr. Onur Ozlu, Senior Urban Economist, GGSURR, World Bank
Mr. Emmanuel Mungunasi, Senior Economist, Africa Region, World Bank
Mr. Jacques Morisset, Lead Economist, Africa Region, World Bank
Ms. Jane Kibbassa, Senior Environmental Specialist, World Bank
Ms. Anne Mtani, Director of Urban Development, PLO-RALG
Mr. Jumane Sagiri, Permanent Secretary, PMO-RALG
MS. Elightness Mchome, Former Assistant DLG, PMO-RALG
Mr. Solanus Nyimbi, Former Director of Local Government, DLG, PMO-RALG
Mr. Cornel L. Barnabas, Former Project Coordinator Dar es Salaam
Ms. Zainab Ngonyani, Former Project Coordinator, CIUP, Dar es Salaam
Mr. Eng. Nyariri K. Nanai, PMO-RALG
Mr. Evans Mgeusa, PMO-RALG
Mr. Jovin Bujulu, PMO-RALG
Ms. Jenifa Omolo (and staff), Town Director, Kibaha Town Council
Mr. Kimata Yoichiro, Senior Representative, Japan International Cooperation Agency (JICA)
Ms. Jennifer Matafu, Senior Programme Officer, Local Governance, Embassy of Sweden
Mr. Vivek Misra, Advisor, DfiD, Dar Es Salaam
Mr. Jamie Boex, the Urban Land Institute, Washington, DC