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EFFECTIVE FINANCE MANAGEMENT AND GOVERNMENT ACCOUNTING IN TANZANIA:

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I. INTRODUCTION:

1. This paper briefly highlights issues pertaining to management of government finances, the Budgetary process in Tanzania and its legal framework, government accounting procedures [1] and financial controls. The objective is to highlight areas where improvements could be introduced, given the ongoing reforms worldwide in this area.

2. The Government has a major responsibility to ensure a sound and stable economic situation, creation of conducive environment, through fiscal and other policy measures. This is in addition, to the traditional roles of government of maintaining law and order, security and provision of social services and economic infrastructure. It is for this reason that in order to ensure delivery of goods and services to the people, resource allocation and effective use of those resources is an important element in the management of government finances. Provision of services by any government requires resource mobilization. Thus, fiscal policy will always involve raising of revenue (taxes), expenditure and borrowing to fill the gap between the revenue generated and expenditure requirements.

3. It is important to emphasize at the outset that sound economic management requires prudent fiscal policy; namely, policies in respect of taxation, expenditures and financing of budget deficit. The government must balance the impact of the three measures in relation to the various players in the economy, i.e taxes as they relate to output and growth, impact of financing budget deficit through printing of more money which is unrelated to expansion in output or borrowing from the public and other related issues. The government should aim at spending level that does not put undue constraint on the conduct of monetary policy or that reduces required incentives in other sectors of the economy. Therefore, fiscal policy should be determined and viewed by government and the public as decisive in reducing inflationary pressures in the economy.

II. THE BUDGET PROCESS AND ITS EXECUTION:

4. The Budget process which is undertaken on an annual basis involves the determination of resources and their uses for attainment of Government objectives. The

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[1] The word accounting in this context is simply defined as involving identification, selection and analysis, measurement, estimation, processing and communication of information on receipts, expenditures, assets, liabilities, costs and benefits and all other aspects that are part of fiscal management.

process starts with the identification of goals and objectives which the Government wants to attain in the immediate, medium and long term within its overall socio - economic policy. A sound budget serves as a tool for economic and financial management and accountability and should also serve as a mechanism for allocating resources among different needs and to priority areas, as well as bringing stability and economic growth. However, given the fact that in Tanzania, Central government finance has been the major source of financing of the public sector, the reduction of the public sector expenditure base is an important task to restore fiscal and monetary balance.

Budget Frame:

5. At any given year, preparations of the budget are undertaken within the context of the Budget Frame which takes into account the global and overall macro-economic objectives and targets including fiscal, monetary and structural adjustment targets. For the coming three years (1995/96 - 1997/98) Tanzania's macro - economic objectives entail achievement of the following:[2]

(i) Economic rate of growth of 5 percent in 1995/96 and 6 percent in 1996/97.
(ii) Reduction in the average rate of inflation to 15 percent in 1995/96; 7.5 per cent in 1996/97 and 5 percent in 1997/98.
(iii) Attain recurrent savings of the central government of 1 percent of GDP in 1995/96; 2 percent of GDP in 1996/97; 3 percent of GDP in 1997/98.
(iv) Steady reduction in the external current account deficit (excluding grants) to about 13 percent of GDP while maintaining gross foreign reserves of the banking system equivalent to at least three months of imports.

Budget Guidelines:

6. Budget Guidelines [3] are prepared within the context of the Budget Frame and take into account the following aspects:

(i) In the guidelines the centre translates the budget frame into budget policy objectives and operational priorities.
(ii) Institutional ceilings have to be adhered to as they are strictly dictated by availability of resources.
(iii) Guidelines are issued to ensure the coordination process at various levels within and among agencies.
(iv) Institutional guidelines are prepared by the Treasury to assist accounting officers in the coordination of budgetary activities.

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[2] See Tanzania: Policy Framework Paper for 1995/96 - 1997/98 of August 24, 1995.

[3] See Handbook on Government Budget Management in Tanzania 1992. The essential features of the Guidelines are detailed on P.99 of the Handbook.

Revenue and Expenditure Estimates:

7. There are two main areas of significance in the preparation of the budget; namely, the preparation of revenue and expenditure estimates. In the area of revenue estimates the following points should be noted:

(i) All Receivers of Revenue are accountable for revenue collection and play a crucial role in attaining their targets.

(ii) Tax revenue constitute a major part (approx. 90 percent) of recurrent revenue for the Government.

(iii) There is need for improvement in the forecasting of revenues.

(iv) The Government should aim at financing its expenditure from own revenue instead of depending on external revenue to run its operations.

(v) External Revenue (from aid) should be directed towards capital formation and not consumption.

8. However, with regard to expenditure, given the scarcity of resources the decisions involved would be on the following lines:

(i) What must be funded (including non discretionary expenditures).

(ii) What may be funded if resources allow.

(iii) What may be left out of the expenditure estimates

(iv) What must be left out.

Budget Approval:

9. The approval of the National Budget will normally involve the following stages:

(i) Reconciliation and finalization of Institution's Budget proposals into "A National Budget Proposal" by Central Ministries i.e. Finance, PLANCOM and CSD).

(ii) Approval of Budget proposals by Cabinet

(iii) Preparation of Budget Documents for Parliament: i.e.
   * Financial Statement and Revenue Estimates
   * Estimates of Public Expenditure, Consolidated Fund Services and Supply Votes (Ministerial)
   * Estimates of Public Expenditure, Supply Votes (Regional)
   * Budget Brief to the Economic and Finance Committee
   * Budget Speech
   * Finance and Appropriation Bills

(iv) Parliament Authorizes Government Budget

(v) Budget Documents that give authority to carry out Budget execution include the following:
   * Finance Act
   * The Appropriation Act (except for CFS i.e. State House, Public Debt and General Services).

* The Presidential Warrant (Not to exceed 1/3 of the amount in the Appropriation Act for the current financial year including supplementary or the following Financial Year which ever is lower).
* Volume II, Estimates of Public Expenditure, CFS and Supply Votes (Ministerial).
* Volume III, Estimates of Public Expenditure, Supply Votes (Regional)
* Part A & B for Ministerial and Regional Development Projects.

Releases of Funds

10. After Parliament authorizes the Government Budget the moneys are released to spending Agencies by the Treasury. The Treasury sends out Exchequer Issue Warrants to the Bank of Tanzania authorizing the Bank to credit the Ministerial and Regional Paymaster General's Accounts by way of funds from the Exchequer. The Treasury also sends Exchequer Issue Notification to all **Accounting Officers.** On receipt of the Exchequer Issue Notifications Accounting Officers issue Warrant of Funds to their respective departments. These Warrants of Funds give authority to expend the amount set out in the Warrant specifying sub votes, subheads, and item of expenditure. All Warrant Holders (Heads of Depts) on receipt of Warrants are supposed to enter details in their vote books. Copies of Warrant of Funds are submitted to (NBC) headquarters for certification and transmission to respective branches of NBC to enable them exercise control over the authorized ceilings.

Fundamental Principles for Budget Operations:

11. The fundamental principles governing the operations of the budget include the following:

(i) Public Revenue levied based on Finance Act of that year and that no moneys shall be spend without authority of the National Assembly (see Sec.136 and Sec.137 of the Constitution of the United Republic of Tanzania of 1977) as amended in 1995, and Sec. 11 of the Exchequer and Audit Ordinance Cap 439.

(ii) Expenditure on Government activities should be made only and for the purpose authorized by the National Assembly as provided in Sec. 139 of the Constitution.

(iii) There is one Consolidated Fund into which all revenues of the United Republic collected under the authority of the National Assembly are paid into and from which all funds for expenditure purposes shall be paid as contained in Sec. 135 and Sec. 136 of the Constitution as well as Sec. 8, 9, 10 and 11 of the Exchequer and Audit Ordinance Cap. 439.

(iv) All moneys spent out of the Consolidate Fund of the United Republic of Tanzania must be accounted for before the National Assembly (Sec. 26 and Sec. 27 of Exchequer and Audit Ordinance and Sec. 143 of the Constitution).

Legal Framework:

12. The execution of the Government Budget is carried out within the established legal framework, for management of the finances of the United Republic as enshrined in the Constitution and further elaborated in a number of Legislations; the most important of which are the following:

(i) The Exchequer and Audit Ordinance (CAP 439)
(ii) The Government Loans, Guarantees and Grants Act No. 30 of 1974; and
(iii) The Bank of Tanzania Act No. 1 of 1995.

13. It is necessary to underscore here that the legislative framework contained in the cited legislations has been put in place in order to ensure that at all times, the Government has access to financial resources to defray approved public expenditure; and that access to financial resources other than tax revenues is not excessively utilized beyond certain set limits, which if exceeded would compromise Government's ability to finance its operations in the years ahead; in addition to being inflationary and causing fiscal imbalances in the economy.

14. In this regard, the Exchequer and Audit Ordinance has vested in one single authority, the power of control and supervision of the finances of the United Republic so as to ensure that full account is made to the National Assembly which represents the Citizens of this Country. Thus, Sections 4 and 5 of the Ordinance provide that the control, supervision and management of public finances shall be vested in the Minister for Finance and that every person concerned or responsible for the collection, receipt, custody, issue or payment of public moneys, shall obey all such instructions that may from time to time be issued by the Treasury in respect of the custody, handling and accounting for such public moneys.

III. THE BUDGET AND GOVERNMENT BORROWING

15. It has been pointed out earlier that Government borrowing for deficit financing is part of fiscal policy which consists of the use of three instruments, namely, taxes, government spending and public debt operations. The aim of fiscal policy should be to use these instruments to influence economic activities and allocation of resources between the public and private sectors to attain stability and growth. Public debt management is normally considered to be an integral part of monetary policy. However, Government action can be considered to be purely a fiscal policy matter only when the effect of borrowing is neutral, particularly in terms of availability of financing to the private sector. In practice pure fiscal policy is rare, as changes in government revenues and expenditure involve changes in the financing of the budget and thus will always have

a common boundary with monetary policy. However, debt management as it relates to the composition of instruments, timing of issue and their duration are more closely associated with monetary policy.

16. Most Governments finance budget deficits by borrowing from the public through issuance of Government bonds, stocks or Treasury bills and other instruments. Public borrowing can be very costly to government as the interest rates charged will normally be market related. It is important to emphasize here that financing of budget deficit through printing of more money unrelated to expansion output will result in inflationary pressures.

17. In circumstances where tax revenues are not adequate to defray public expenditure, the Minister for Finance is the only single authority who has been vested with powers under the Government Loan, Guarantee and Grants Act No. 30 of 1974 to raise loans of such sums as in his opinion, are necessary to defray expenditure which may lawfully be defrayed. These loans may be raised from within or outside the country subject to the limitation that, with respect to foreign loans:

(i) the aggregate of the services cost becoming due and payable in respect of all outstanding loans during the financial year in which the loans are contracted and the four succeeding financial years does not exceed 15% of the average annual foreign exchange earnings of the past three fiscal years; and /or

(ii) the aggregate service cost of all outstanding foreign and local loans due and payable in any financial year and the next succeeding four financial years should not exceed 30% of the average annual recurrent revenue of the past three financial years.

18. The Statutory limit for local loans which may be raised by issue of Treasury Bills, Bonds, Stocks or by other method as may be deemed expedient by the Minister for Finance, is that in no financial year shall the aggregate of the service cost becoming due and payable in respect of all outstanding loans, (local as well as foreign loans) during that financial year and the succeeding four financial years exceed 30% of the average annual recurrent revenue computed on the basis of three proceeding financial years.

19. In order to ensure that Government's financial requirements are temporarily accommodated at all times when there are revenue gaps, provisions have been made under sections 37 and 38 of the Bank of Tanzania Act No. 1 of 1995 by which the Government may obtain direct advances and other short term credits from the Bank of Tanzania and under which the Bank of Tanzania may purchase or sell stocks, bonds or other securities issued by the Government for the purpose of raising funds to defray approved public expenditures. There is however, a limitation that the total amount outstanding at any time of advances and Treasury Bills held by the Bank should not

exceed one eight (1/8) of the average budgeted revenue of the Government. This limitation has been imposed in order to ensure that Government does not place heavy reliance on advances from the Central Bank to finance its operations which is inflationary, but concentrates efforts on tax revenue collection measures. It can, therefore, be observed from the foregoing that there is a limit at which the Government can spend, which is dictated by its ability to collect tax revenues and the statutory limits within which it can access itself to non-tax revenues through advances and borrowing. Financial prudence demands that Government should only spend what it can generate from its revenues.

20. In the past, there has been little observance of established legal and institutional framework for contracting domestic and foreign debts as a result of excessive financial demands on the Government and political pressures. Lack of awareness among senior Government policy makers on the negative effects of excessive borrowing has unfortunately resulted in a huge debt overhang, the servicing of which continues to erode available Government revenue, which could otherwise be utilized to finance vital social services and other priority areas. As at June, 1994 total domestic debt, including contingent liabilities had expanded to Tshs. 1,832 billion representing about 119 per cent of GDP at market prices for 1993/94. In the same vein, contingent liabilities stood at Tshs. 1,450 billion or about 94 percent of GDP at market prices for 1993/94.

21. One of the major problems facing Tanzania today is the size of the debt service, overhang which must be addressed urgently. As a matter of urgency, we have to revert to the established institutional framework for contracting, recording and monitoring of the national debt. Government Ministries and Regions should strictly observe and adhere to the following:

(i) enhance coordination of procedures for approving new borrowing which will be based on clearly spelled out criteria. This means that the practice by certain ministries in contracting loans or approving the grant of loans to parastatals under them without the approval of the Ministry of Finance should not be entertained. The Ministry of Finance should continue to remain the focal point for approving loans and credits as provided for in the present legal framework.

(ii) ensure that debts are kept within reasonable limits to enable the servicing of these loans to improve Government credibility within and outside the country.

(iii) set up a Debt Coordination Committee which will be entrusted with responsibility of advising the Government on how much debt should be raised, when to be raised, the type of debt, terms for borrowing and other aspects. This Committee would also have the task of drawing up an action plan and time table within which all elements of debt management strategy are to be completed; namely, how much debt should be raised, when to be raised, terms and type of debt.

IV. GOVERNMENT ACCOUNTING AND CONTROL SYSTEMS

22. Government accounting procedures require that following expenditure authorization through the Appropriation Act or the Presidential Warrant, the Paymaster General (PMG) applies for grant of credit to various Accounting Officers accounts from the Controller and Auditor General (CAG) in respect of recurrent Votes. However, with regard to development budgets, release Warrants are made on the basis of action plans for the programs to be executed. In order to ensure proper and efficient use of resources and measure performance, accounting systems are put in place to ensure the following:

(i) that all government financial transactions are recorded.

(ii) accounting systems facilitate compilation of monitoring and evaluation reports and source of data for reporting.

(iii) Accounting provides assurance through reports to the National Assembly that:

- (a) Revenue and expenditures conform to statutory authorization and financial regulations.
- (b) Accounting Officers are held accountable for recording of government transactions, preparation and submission of the annual appropriation accounts for audit and examination by the Controller and Auditor General (CAG).
- (c) Accounting Officers are accountable for government goods and services which are produced and provided by their institutions.
- (iv) Given the scarcity of resources on one hand and the increasing demands for government services on the other, accounting must take into account the question of "value for money".

23. The current Government Accounting system was therefore, established for the purpose of preparing, maintaining and retaining financial and related records of Government Activities. This system is detailed in the Exchequer and Audit Ordinance Cap.439. The provision contained in this Ordinance include, inter alia, the Control and Management of Public Finances of the Government, Collection and Issue of public moneys, Audit and Examination of Public accounts, statutory bodies accounts and any other matters related to government accounting.

24. It is evident that the Exchequer and Audit system which cover Government Accounting is a reliable basis through which useful information is provided to decision makers to make proper use of data contained therein and taking appropriate actions. Financial records and reports which are well prepared greatly facilitate proper management, control and coordination of Government activities. It is therefore, important for Accounting Officers to prepare and maintain all required financial records and reports in accordance with the statutory and other regulations and submit them in time to authorities to facilitate further action.

Treasury and Appointment of Accounting Officers:

25. The Ordinance defines the Treasury as being the Minister of Finance and any other officers deputed by him. The Principal Secretary to the Treasury is also the Paymaster General as pointed out previously in this paper. The Paymaster General appoints Accounting Officers and Receivers of Revenue to account for services for which money has been appropriated by the National Assembly; to collect and account for specific public moneys respectively. These are Principal Secretaries, Regional Development Directors and/or Heads of independent Departments. In accordance with the Law (Exchequer and Audit Ordinance Cap.439) Sec.5, Treasury Circulars, directives, Financial orders issued from time to time by the Treasury must be adhered to by all Accounting Officers and Receivers of Revenue. As regards local authorities, the Minister of Local Government may, under section 42 of the Local Government Finance Act 1982, issue instructions for the control and management of the finances of local authorities in a form of a Financial Memorandum.

Financial discipline and compliance:

26. It can be observed from the Annual Reports of the Controller and Auditor General, that there has been some laxity in maintaining financial discipline. The Treasury on the other hand has been issuing Treasury circulars and directives to remind Accounting Officers of their primary responsibility to improve the situation. The Public Accounts Committee of the National Assembly, has also been issuing warnings and have been recommending penalties for Accounting Officers who are not taking their responsibility seriously. Apparently this has not worked as expected to improve financial management and control. The non adherence to budgetary appropriations has been going on unchecked for many years resulting into excess votes and financial mismanagement. Measures must be taken urgently to arrest this trend.

Audit of Accounting Officers Accounts:

27. The Controller and Auditor General is the statutory Auditor of the Government as detailed in Sec.143 of the Constitution. On behalf of the National Assembly, the CAG is empowered to examine, inquire into, at least once in every year, the accounts of all Accounting Officers responsible for collecting revenue or incurring expenditure from public funds. The Controller and Auditor General reports on deficiencies and financial irregularities noted in the course of the audit, to the National Assembly through Annual Audit Reports. The report is submitted to the President before it is submitted to the Speaker of the National Assembly.

V. AN AGENDA FOR REFORM AND IMPROVED ACCOUNTABILITY

28. The preceding sections of this paper have looked into the setting of financial management and government accounting in terms of the macroeconomic framework, the legal framework and the interaction between the centre and spending agencies on one hand and with those institutions that provide checks and balances in the execution of the

budget, on the other, as well as financial controls and accountability. This section will focus on a few areas which could generate discussions and suggestions for an improved government accounting system. Areas that have currently stimulated discussions include the following:

(i) While macroeconomic goals have a pre-eminent role in the policy framework of the country, can they be viable if achieved at the expense of goods and services i.e. drastic cuts in money supply and lending by banks may have a negative impact on the delivery of goods and services and production in the real sectors of the economy.

(ii) Controls are influenced to a large extent by developments in public sector management as a whole i.e. introduction of a new management outlook into government which puts more emphasis on results, flexibility sound judgement, innovation and overall organizational development of institutions to improve their productive capacity and performance. In addition, more emphasis is being placed on measures for performance, competition, discipline, economy in resource use and accountability for tax payers money. Is there enough awareness of these issues among policy makers and those carrying out execution of the budget?

(iii) The role of the external audit agencies; the Controller and Auditor General (CAG) or Tanzania Audit Corporation (TAC) for parastatal enterprises mainly focus on comprehensive audit of the annual financial statements of the Government or public sector to certify compliance with laws in the use of budgeted resources and compliance with legislative appropriation and pattern of their use. However, there are now moves in many countries to examine efforts to secure economy, efficiency and effectiveness of the resources and value for money. It is also being extended to quasi-judicial approach to determine the adequacy of the law, pre-audit of expenditures to ensure compliance and investigation into special issues such as the adequacy in accounting and internal systems in spending agencies. Is there an urgent need for Audit Agencies in Tanzania to shift their focus on auditing to ensure effective use of resources?

(iv) The Controller and Auditor General has been issuing audit and management reports every year on the accounts of Accounting Officers with queries and observations with respect to revenues and use of public funds. Are these reports looked at by policy makers and Accounting Officers as helpful to improve financial control rather than mere criticisms. Do Principal Secretaries who are the Accounting Officers take the Auditors Reports Seriously?

(v) What should be the role of the Public Accounts Committee of the National Assembly (PAC) in improving government accounting? What should be the limit of their powers in respect of Accounting Officers who do not perform?

(vi) What should be the major role of the Treasury in government accounting. Are the financial orders kept up to date or do they need revision and updating? Is the assistance provided to Ministries and Regions in the management of finances adequate? Are reports from Internal Audits and Stock Verifiers of any use to Accounting Officers ?

(vii) Currently the tax reform measures being undertaken focus on the following areas:

(a) improve efficiency of tax structure.
(b) strengthen the equity impact of the tax system.
(c) simplify the system to improve its administration.
(d) initiate comprehensive tariff reform study.
(e) review the role of the Investment Promotion Centre (IPC) to minimize revenue leakages and abuses,
(f) increase transparency and put in place adequate implementation audits for beneficiaries of IPC incentives.

Delivery of goods and services to the people will very much depend on how much revenues government can raise from its internal sources to meet these requirements. Are there any proposals for tax reform, particularly, in respect of revenue yield and increased buoyancy, efficiency and equity of the tax system?

VI. <u>CONCLUDING REMARKS:</u>

29. It will be seen from the outline of this paper that, problems of expenditure control are attributed to budgetary, accounting weaknesses and compliance, which call for improvement. The budgetary weakness is largely apparent in preparing budget without funding priorities, coupled with subsequent authorization of commitments without regard to availability of funds. The current unhealthy economic situation is sufficient justification for greater frugality and financial prudence. It is obvious that effective financial management cannot be achieved if there is no commitment from the country's leadership.

30. In order to properly manage government finances government at all levels must be more responsive, accountable and cost effective. This is particularly important now that there are so many complaints with the existing systems because of inability to make payments, deliver services or furnish reports on time. In this regard no major successes in fiscal policy can be achieved without strengthening government accounting both at the centre and spending agencies, as well as supporting institutions.

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