ECONOMIC AND SOCIAL RESEARCH FOUNDATION (ESRF)

EFFECTS OF BUDGETARY PROCESS REFORMS ON ECONOMIC GOVERNANCE EVIDENCE FROM TANZANIA

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ABSTRACT

Tanzania's economic reforms have improved economic performance, with growth exceeding 5% in recent years and inflation maintained below 5% in 2004. Budgetary reforms have improved resource allocation and fostered better management and accountability of public resources.

The introduction of cash budget coupled with ministry-wide use of an Integrated Financial Management System (IFMS), has improved fiscal discipline. Expenditure management has improved and budget execution can be monitored almost in real time with the IFMS. Further improvements are needed, however, to make cash budgeting more flexible, especially by making quarterly releases to all spending units as opposed to the current priority sectors only. Integration of all donor assistance to the budget should also enhance transparency and accountability of all budget resources through government processes.

The budget reforms undertaken through the introduction of Public Expenditure Reviews (PERs) and Medium Term Expenditure Framework (MTEF) have been particularly useful in fostering wide participation of stakeholders in the budget process. These reforms have strengthened the links between sector policies and resource allocation, providing valuable analysis and feedback on budget execution that has improved resource use. These processes, however, can be improved further by enhancing government ownership of the processes and expanding their coverage to include all sectors of the economy.

The impact of the budget reforms on revenue collection has been commendable. In particular, the Tanzania Revenue Authority has consistently met its revenue targets and collections have reached an average of 12.5% of GDP in the past 10 years compared with less than 8% of GDP in the previous decade. Further improvements are needed in expanding the narrow tax base, reducing tax exemptions and streamlining the taxation system to foster voluntary compliance.

The impact on poverty reduction, however, has been weak, in part because efforts directed in this area can only bear fruits in the medium and longer term. However, the government is moving in the right direction by prioritisation of education, health and infrastructure – sectors that have high impact in poverty reduction. In this regard, greater resources should now be allocated to the agriculture sector in part because the majority of Tanzanians depend on this sector for improving their lives.

IMPACT OF BUDGETARY PROCESS REFORMS ON ECONOMIC PERFORMANCE AND POVERTY REDUCTION

I. INTRODUCTION

Tanzania's sustained efforts at economic reforms (including budgetary reforms) over the past decade has resulted in macroeconomic stability, rising per capita incomes and growing resilience of the economy against adverse shocks. Real growth has averaged 5.0% in recent years (6.2% and 5.6% in 2002 and 2003, respectively) and inflation reduced to about 4.5 percent in 2004. Social service delivery is also improving, albeit, slowly. The reforms have laid a solid foundation for making greater improvement in economic performance in the future.

This paper provides a brief discussion on the impact of budgetary process reforms on economic performance and poverty reduction. After this introduction, Section 2 discusses the budget process – a highly participatory democratic process whose reforms have laid good foundations for more efficient and accountable use of budgetary resources. Section 3 focuses on the three main budget reforms: cash budgeting, public expenditure reviews (PERs) and Medium Term Expenditure Framework (MTEF). This is followed in Section 4 by analysis of the revenue side, indicating commendable progress in collecting revenue. Issues of integrating donor funding in the budget are discussed in Section 5. Progress in channelling assistance through General Budget Support (GBS) is encouraging, although the speed could be improved. The impact on priority resource spending is discussed in Section 6 followed by issues of accountability in Section 7. Both these sections indicate commendable progress towards prioritisation of expenditure and improved use of budgetary resources. Section 8 provides a brief discussion on the impact of the reforms on poverty reduction. Although some little progress is being made in reducing widespread poverty, Tanzania has a long way to go to attain Millennium goals and the country's Vision 2025 objectives. Section 9 concludes the report.

2.0 BUDGET PROCESSES

Tanzania's budget process is lengthy and highly participatory. It involves government officials, donors, Non-government organisations, and the civil service society organisations in achieving a partnership-oriented budget. A brief summary of Tanzania's budget cycle is attempted below.

Date	Main activities/Process	Key Actors	Remarks
November-December	Formulation of Budget Policy and Resource Projections ♦ Macro economic review by the Budget Guideline Committee; ♦ Assessment of performance of previous budget assumptions and targets; ♦ Economic growth; ♦ Rate of inflation; ♦ Government finance;	▪ National Budget Committee (MoF, PO-PP, PSM, PO-RALG, VPO) ▪ Sectors ▪ PER Forum ▪ Donors	✓ At this stage many players provide relevant information, most importantly: The Bank of Tanzania; Research organisations such as ESRF and University of Dar es Salaam; NGOs and CBOs. ✓ PER studies and

Date	Main activities/Process	Key Actors	Remarks
	♦ Sector performance especially those under Poverty Reduction Strategy (PRS) ♦ Projection of GDP; ♦ Resource projections/budget frame ♦ Expenditure objectives and priorities – sectors level; ♦ Set resource ceilings both sectors and institutional level.		discussions begin. This involves Government officials, NSA and donors. ✓ Local Government plans and resource requirements from the village level to the district begin at this stage.
December-January	Issuance of Budget Guidelines and draft Cabinet paper for discussion and review by Cabinet Secretariat, Inter-Ministerial Technical Committee (IMTC) and then Cabinet.	▪ Budget Guideline Committee, ▪ Cabinet Secretariat ▪ IMTC ▪ Cabinet	✓ Managerial issues arising from implementation of the previous budget are also addressed at this stage.
January-March	Revenue and Expenditure Estimates by Ministries, Regions and Local Governments ♦ Reviewing past and current budget performance; ♦ Preparing detailed plans and targets; ♦ Identifying activities and costing inputs; ♦ Preparing a three-year performance-based budget –MTEF ♦ Submission of Draft Budget estimates for MoF for scrutinisation.	▪ Ministries and Independent Departments (MDAs) ▪ Development partners (donors) ▪ Non-State Actors (NSA)	✓ The PER process provides input in the budget formulation, especially for the Priority Sectors (PRS). ✓ NSA such as TGNP (gender issues); TAWLA (women legal issues), REPOA (poverty issues); TCCIA (taxation issues), etc, are very active at this stage.
April - May	Finalisation of Budget preparation ♦ Scrutiny of MDAs estimates by Ministry of Finance; ♦ Donor/Government consultations; ♦ Submission of estimates to Cabinet Secretariat, IMTC and then Cabinet; ♦ Approval of the Budget Frame and Expenditure proposal by Cabinet; ♦ Computerisation of the Budget data ♦ Printing of the Budget Books by Government Printer	▪ MoF, Po-PSM, Po-P&P ▪ Development Partners (Donors) ▪ MDAs ▪ Cabinet Secretariat ▪ IMTC ▪ Cabinet ▪ Government Printer	✓ Critical stage where trade-off decisions are made to ensure funding conforms to priorities, strategies and Vision 2025. ✓ Scrutiny of budget proposals by the nine Parliament Portfolio Committees as well as the Non-portfolio committees (Public Accounts and Local Authority Accounts Committees).
June - July	Budget authorisation by parliament ♦ Review and discussion of sectors plans and budgets by Parliamentary Committees; ♦ Presentation of Public Speech on macroeconomic performance and projections by the Minister of planning and Privatisation; ♦ Presentation of the Government Budget proposals to the Parliament by the Minister of Finance through a Budget Speech; ♦ Parliamentary debates/discussions on ministerial estimates submitted by each Minister responsible; ♦ Parliamentary approval of estimates by passing the Appropriation Bill;	▪ Parliamentary Committees ▪ Ministries ▪ Po-P&P ▪ Minister of Finance ▪ Sector Ministers	✓ Democratic budget debates by both the ruling part members and the opposition.

Date	Main activities/Process	Key Actors	Remarks
	♦ Parliamentary approval and passing the Finance Bill that empowers the Minister of Finance to raise the money to finance the Budget.		
July - June	Budget Execution ♦ Release of funds by the Ministry of Finance; ♦ Collection and accounting for revenue collections by Tanzania Revenue Authority (TRA), and other MDAs. ♦ Delivery of services and project implementation by institutions; ♦ Maintenance of proper accounts for control and accountability; ♦ Reporting on budget performance (both financial and physical and evaluation; ♦ Project inspection and expenditure monitoring	▪ MoF ▪ TRA ▪ MDAs ▪ Development Partners	✓ Accounting Officers are appointed by the relevant body (specified under the Public Finance Act, 2001) to become Receivers of Revenue and also accountable for expenditure in accordance with the Public finance Act, 2001. ✓ Management issues arising from budget executions also dealt with at this stage. ✓ Supplementary and additional estimates done according to need – approval follows normal parliamentary procedures.
July - June	Monitoring and control ♦ Accountability to ascertain appropriateness of expenditure and revenue and their conformity to authorities through financial reports and audits; ♦ Periodic reporting and follow-up. ♦ Internal audit; ♦ Parliamentary Control; ♦ Budget Review and Adjustments; ♦ Project inspections, etc.	▪ Parliament ▪ Controller and Auditor General ▪ Auditors ▪ MoF ▪ Po-P&P ▪ VPO ▪ PER Forum	✓ Specific monitoring and evaluation formats have been developed and issued for budget monitoring and follow-up. ✓ Management issues arising from implementation taken up based on reviews and evaluations.

Overall, the budget is perceived to comply with the principles of good governance.
Other attribute that indicates that the budget process conforms to good governance relates to adherence to the rule of law. The Constitution of Tanzania (1977), the Public Finance Act (2001), the Tanzania Revenue Authority Act (1995), and the Local Government Act (1982), to mention, but a few, provide important guidance, rules and regulations with regard to budget formulation and implementation.

More importantly, however, is the transparent nature that has been built in the budget process. Allocations for all spending units, including government institutions, independent institutions and districts budgets are made public. Independent audits are made to ensure compliance and value for money. Equity considerations are built into the budget process through the Poverty Reduction Strategy Paper (PRSP) and funding of priority sectors – especially education, health, water, agriculture, roads, judiciary and HIV/AIDS. Poverty reducing expenditures addresses important good governance issues, especially those related to pro-poor and disadvantaged groups such as women in both urban and rural areas.

3.0 KEY BUDGETARY REFORMS

There are three main budgetary reforms that have been enunciated in the past decade. These are: cash budgeting, public expenditure reviews (PERs) and Medium Term Expenditure Framework (MTEF).

3.1 Cash Budget – Reform aimed at improving expenditure management

Tanzania has maintained a cash budget system for expenditure management since fiscal year (FY) 1997[1]. The system, which is managed by the Ministry of Finance (MoF), limits aggregate expenditure in a month to average revenue collection in the previous three months plus programme aid. Ministry exercises this control by allowing vote holders to spend monies from their votes only to the amount it releases every month. Priority sectors get their releases every quarter.

Has the cash budget helped improve fiscal discipline?

The answer is partly yes. The cash budget system has improved fiscal discipline by allowing continuous adjustment of expenditures on other charges[2], to the resource stream. Monthly ex-ante control is desirable since information on budget execution is not available timely enough for adjustment and the cash budget system helps to prevent over-commitment and over spending (above the appropriation amounts) by spending units. The cash budget system is also credited for imparting realism to the budget-making process by taking away incentives to inflate revenue estimates[3]. In addition, according to the FY03 Public Expenditure Review (PER), the cash budget system has led to increased realism in expenditure estimates. The PER FY03 found that the gap between actual and budgeted expenditures on Operations and Maintenance (O&M) decreased after the institution of cash budget. Further, given government policy to move towards a balanced budget, cash budgeting has been a useful instrument for controlling deficits. According to IMF and World Bank observations, cash budget has been a credible indicator of government's intentions to run a responsible fiscal policy.

Despite notable improvements discussed above, cash budgeting has several weaknesses. First, the cash budget has well known costs arising from low predictability of resources for the vote holders. As Table 1.1 and Figure 1.1 illustrates, the resource envelope faces large unpredictability, particularly with regard to external assistance. Domestic revenue levels have been fairly predictable during the past ten years (Table 1.2).

Table 1.1: Tanzania: Deviations between budgeted and actual receipts (percent)

Revenue Category	2000/01	2001/02	2002/03	Average
	Percent			
Total Resources	1.2	-8	-5	-4

[1] Fiscal years run from July to June

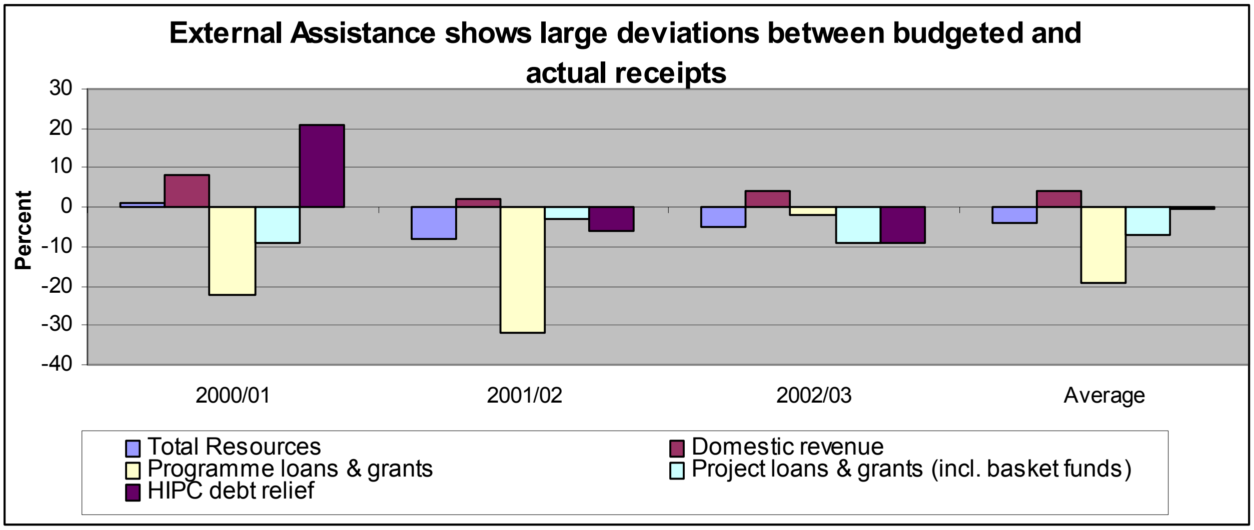
[2] Other charges are non-salary expenditure items.

[3] Budget makers would inflate revenue estimates when they want to theoretically provide for all demands (often inflated) of spending units. Against the fictitious high revenue, units could then spend during the year, resulting in higher than designed deficit when revenue did not materialise.

Domestic revenue	8	2	4	4
Programme loans & grants	-22	-32	-2	-19
Project loans & grants (incl. basket funds)	-9	-3	-9	-7
HIPC debt relief	21	-6	-9	-0.4
Domestic borrowing & Others	43	-76	-174	-100

Source: Based on Ministry of Finance Reports

Figure 1.1: Deviations between budgeted and actual receipts (percent)



The unpredictability of aid flows poses several problems in expenditure management that cannot be effectively resolved under the cash budget system. In particular, cash budget is not an instrument to counter or offset the volatility of resource streams. It actually passes the volatility on to exchequer releases with some magnification. An examination of monthly exchequer releases in comparison with actual expenditure (PER FY03) shows that despite the cash budget, exchequer releases are more volatile than actual expenditure. This means spending units (Ministries, Departments and Agencies (MDAs) appear to be carrying out some "expenditure smoothing" on whatever resources are disbursed to them.

With regard to cash budget, what is the next best options to improve expenditure management further?

- Make quarterly expenditure releases to all spending units. This will enhance planning and improve efficiency in resource use. If this is implemented, spending units have to submit to Treasury quarterly budget execution reports in order to improve transparency of execution at the detailed level of expenditure. The wide use of Integrated Financial Management System (IFMS) should facilitate in producing such quarterly reports.
- Donors should front-load their assistance at the beginning of the fiscal year to avoid resource volatility and cash flow problems. In order to achieve this, all donors have to be requested to channel their support through General Budget Support. This will increase transparency and

accountability because all budgetary resources will be subjected to government processes and accountability procedures.

3.2 Public Expenditure Reviews (PERs)

The budgeting process is open and participatory in nature. The PER process began in 1997. Its main objective is two-fold: First, to provide support to the budget process and budget management. Second, to provide feedback on public expenditure and management issues to government and other stakeholders through external evaluation. The PER working group, chaired by the Ministry of Finance provides overall leadership to the process. The external evaluation work is carried out under the World Bank leadership.

The PER has opened up the budget process to a wider participation by government, non-state actors and donors. Evaluations and studies conducted under the PER process shows that the dialogue between line ministries, donors, civil society and the ministry of Finance during the budget formulation process has been significantly enhanced. The PER process provides a forum for exchange of views among key stakeholders at the sectors as well as at the macro levels. At the grass-roots level, the Local Government budget process begins at the community/village level where plans and resource requirements are developed in a participatory framework. Community plans and resource requirements are synthesised at the Ward level and onwards to the district level.

The PER is closely linked to the government's Public Finance Management Reform Programme that has five components. The introduction and implementation of the new Public Finance Act and new Public Procurement Act of 2001. The rollout of the Integrated Financial Management System (IFMS). Strengthening tax administration. Improvement in external resource management. And strengthening of the National Audit office.

Is the PER achieving its intended objectives?

The answer is partly yes. Apart from fostering improvement in budget resource allocation, the PER is playing a critical role in enhancing efficiency and accountability in the use of budgetary resources. The PER has instilled transparency in the budget process and is acting as an arm's length watchdog for any malpractice by spending units. However, the PER process has often been criticised for being a donor-driven process. Critiques allude to the observation that who-ever funds the PER studies and evaluations, controls the process. Since donors play key role in funding the studies and evaluations, the PER process appears to be donor-driven. As a result, despite having wide participation, government ownership is considerably reduced, implying low prospects for its sustainability. In order to improve the PER process, donors should relinquish their control by progressively building government capacity to fund and manage the process.

3.3 **Medium Term Expenditure Framework (MTEF)**

MTEF entails planning in a three-year perspective. The MTEF links the budget process to Poverty Reduction Strategy (PRS), and is aligned to performance budgeting, whereby the cash management systems make quarterly allocation to identified priority sectors – as identified by the PRS.[4] In this regard, sectoral strategies are focused on priority areas, while reflecting funding constraints. The mainstreaming of the PRS in the MTEF has facilitated higher expenditure shares to be directed towards priority sectors.

In a systematic framework, the sequence of activities in the MTEF process is as follows:

- Formulation of the budget Guidelines Committee
- Revenue and Expenditure estimates preparation
- Final Phase of budget preparation
- Budget execution
- Monitoring and control

The MTEF process has included councils with effect from 2003/04 – after the harmonisation of the central and local government's financial years.

Tanzania's first MTEF covered Fiscal Years 1999/2000-2001/02. A previous initiative, the Rolling Plan and Forward Budget (RPFB), introduced in 1992/93 had sought to strengthen linkage between development planning and the budget process. Although MoF credits the RPFB with having introduced multi-year budgeting linked to a macro-fiscal framework, in practice it had suffered from a number of limitations including:

- ♦ Recommendations regarding the resource envelope and resource allocations were frequently overridden during subsequent preparation of the Budget.
- ♦ It was hampered by the institutional separation of responsibility for planning of the Development Budget (under the Planning Commission (PC) and the Recurrent Budget (under the MoF).
- ♦ Because the Planning Commission led the RPFB exercise, it was perceived as being focused primarily on the Development Budget and consequently failed to contribute to better prioritisation of recurrent spending.

By the time the MTEF was introduced, Tanzania had already made considerable progress towards fiscal stabilisation and developing a realistic macroeconomic framework for budget planning – in part due to reforms that began in mid-1980s. This was aided by the operation of a cash budget, which resulted in in-year corrections if the framework proved unrealistic.

[4] Performance Budgeting was [i]ntroduced in 1998, and was first applied to the PRS related MDAs. It was subsequently made a legal requirement through The Public Finance Act 2001 (URT April 2001) (Article 18.1(b)).

The main objectives of introducing of MTEF in Tanzania were:

- To provide a broad budgetary strategy within which the annual budget could be prepared;
- To strengthen links between sector policies and resource allocations; and
- To provide a mechanism through which analysis of budgetary performance could be fed back into the budget planning process.

Has the MTEF achieved the above objectives?

Partly yes. The MTEF has achieved credibility both with Cabinet, with line ministries and other stakeholders. The MTEF is also seen as a key instrument in ensuring effectiveness in the use of public resources. In this regard, the MTEF has fostered a strong link with the PER process. It has facilitated consolidation of responsibilities for public expenditure planning and management, particularly under the strong leadership of the Ministry of Finance. In addition, the introduction of Integrated Financial Management System (IFMS) has greatly enhanced MTEF viability by strengthening budget execution and accountability of resource use.

What else should be done to improve MTEF performance?

The MTEF process should be made more comprehensive by extending its coverage to all sectors, not only those in the priority areas. This may entail the establishment of Sector Working Groups (SWGs) for those sectors not currently covered under MTEF. Equally important might be to commence the preparation of MTEF much earlier in the first half of the fiscal year so as to give ample opportunity for Cabinet and Parliamentary Committees to review the MTEF documents and provide feedback. Also proposed MTEF Sector Expenditure Strategies should incorporate detailed guidance to Local Governments on resource allocation and management that is consistent with the realisation of sector policies and strategies.

4.0 IMPACT OF REFORMS ON GOVERNMENT REVENUE

On the revenue side of the budget, perhaps the most significant reform has been the establishment of Tanzania Revenue Authority (TRA) in July 1995. Its principle role is to act as a central body for the assessment and collection of specified revenue, to administer and enforce the laws related to such revenue and to provide for related matters of revenue in the United Republic (Tanzania mainland and Zanzibar). TRA that became operational in July 1996 replaced the former independent Treasury Departments of Income Tax, Customs, Sales, Inland Revenue and the Institute of Tax Administration.

The rationale for the establishment of TRA relates to the expectation that an independent, autonomous, single-purpose agency is likely to be more efficient in revenue collection as well as being more accountable. As such, more widespread reforms in tax administration can be undertaken, including those that minimise undue political interventions and corruption.

As Table 1.2 shows, the trend in domestic revenue over the past 10 years has been fairly stable; averaging 12.5 percent of GDP compared with less than 8.0 percent in the previous decade. Improved tax administration, especially introduction of Large Tax Payers Department and markedly reduced tax exemptions coupled with greater efforts by TRA to collect taxes, are largely responsible for the relatively good performance. However, as Figure 1.2 illustrates, the revenue performance in recent years appears flat in terms of GDP. This is a worrisome trend given the urgent need for Tanzania to fund an increasing level of total expenditure from domestic resources. Notice from Table 1.2 that expenditures average 16.9% of GDP implying that a significant part of funding the country's expenditure is dependent upon external assistance.

Table 1.2: Tanzania: Government Finance

Indicator	Unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Average
Total Domestic Revenue	(as % of GDP)	12.5	13.2	13.5	12.6	12.5	11.3	11.8	12.1	12.5	12.9	12.5
Total Expenditure	(as % of GDP)	15.5	13.1	15.2	14.8	15.6	18.6	16.9	17.2	19.8	22.5	16.9
Grants	(as % of GDP)	2.5	1.4	2.7	2.4	3.1	4.5	3.7	4.3	6.2	6.7	3.8
Government debt	(as % of GDP)	1.3	1.1	-1	0.3	0.9	1.6	1	1.1	1.6	2.9	1.1
Aid/Govt Expenditure	(%)	13.9	35.6	35.0	31.5	48.0	42.0	31.2	31.5	39.5	42.8	35.1
Debt relief/Aid	(%)	0.0	0.0	0.0	0.0	1.2	2.1	11.9	12.9	9.3	7.9	4.5

Source: Calculations based on Ministry of Finance data

What should be done for Tanzania to become more self-reliant in funding its development process?

One option is to enlarge the current narrow tax base. To achieve this we need to move towards formalising the large informal sector. Creating the enabling environment for this to happen will require empowering the informal sector through greater access to credit and other facilitating amenities to increase their capacity to create wealth – and therefore the opportunity to be taxed. Another option is to curb tax exemptions, reduce tax evasion and rationalise the taxation system so as to improve voluntary compliance. Equally important is the need to accelerate economic growth through greater investment (both domestic and foreign), especially in infrastructure (roads, energy) and industrial establishments so as to create jobs and enlarge national income.

5.0 IMPACT ON INTEGRATING FOREIGN ASSISTANCE INTO THE BUDGETARY PROCESS

The PER and MTEF budget processes have facilitated in subjecting an increasing amount of donor assistance to government budget processes and accountability**.** According to Tanzania Assistance Strategy (TAS) Annual Implementation Report FY 2002/03 and Ministry of Finance Aid flows Data-base, over 50 percent of the Development Partners' aid flows are captured in the government budget. The external funds subject to the budget process are largely those provided under general budget support and HIPC debt relief flows. Table 1.3 provides a comparison of aid flows (including Basket funds[5]) reflected in National Budget estimates and in Ministry of Finance Aid Database. The proportion captured in the budget has increased recently from about 61 percent in 1999/00 to over 76 percent in 2002/03. Aid flow Database for 2003/04 shows continuing trends in capturing external resources in the budget.

Table 1.3: Proportion of external funds captured in the budget is increasing (Tshs million, current prices).

Fiscal Year	Budget Estimates	Total Project Commitments (Aid flow Data-base)	Percentage captured in budget estimates
1999/2000	214,943	353,940	61%
2000/01	275,476	541,127	51%
2001/02	302,272	660,410	46%
2002/03	624,465	817,184	76%

Source: URT (2004), "Tanzania Assistance Strategy Annual Implementation Report FY 2002/03".

Another way of capturing external resources is to turn to the expenditure side. As Table 1.2 above shows, total expenditure has been increasing from about 15.5 percent of GDP in 1995 to over 22.5 percent in 2004. In tandem, external funds that have been reflected in the budget appropriation accounts have also increased (Table 1.4). The TAS report cited above indicates significant improvement in the proportion of aid disbursements (expenditure) recorded in the government accounts, reaching 65 percent in 2002/03. These findings are also confirmed by a recent study (GOT 2004) which observes that there have been improvements in the extent to which information on aid projects as well as common basket funds have been captured in the budget.

Table 1.4: Higher external funds are reflected in budget appropriation accounts (Tshs million, current prices).

Fiscal Year	Appropriation Accounts	Total Project Disbursements (Aid flow Data-base)	Percentage captured in Appropriation Accounts
1999/2000	67,606	317,231	21%
2000/01	137,559	457,611	30%
2001/02	125,010	424,198	29%
2002/03	328,321	504,054	65%

Source: URT (2004), "Tanzania Assistance Strategy Annual Implementation Report FY 2002/03

Thus, while considerable amounts of foreign aid (over 40%) continues to be disbursed off-budget, the PER and MTEF have been very useful in enticing donors to provide their assistance in the form of General Budget Support or Basket Funding. This move has enhanced government

[5] Basket funds are sector-specific accounts established by government for channelling donor support to fund specific activities in different sectors.

flexibility in the use of available budget resources and improved ownership of the development process.

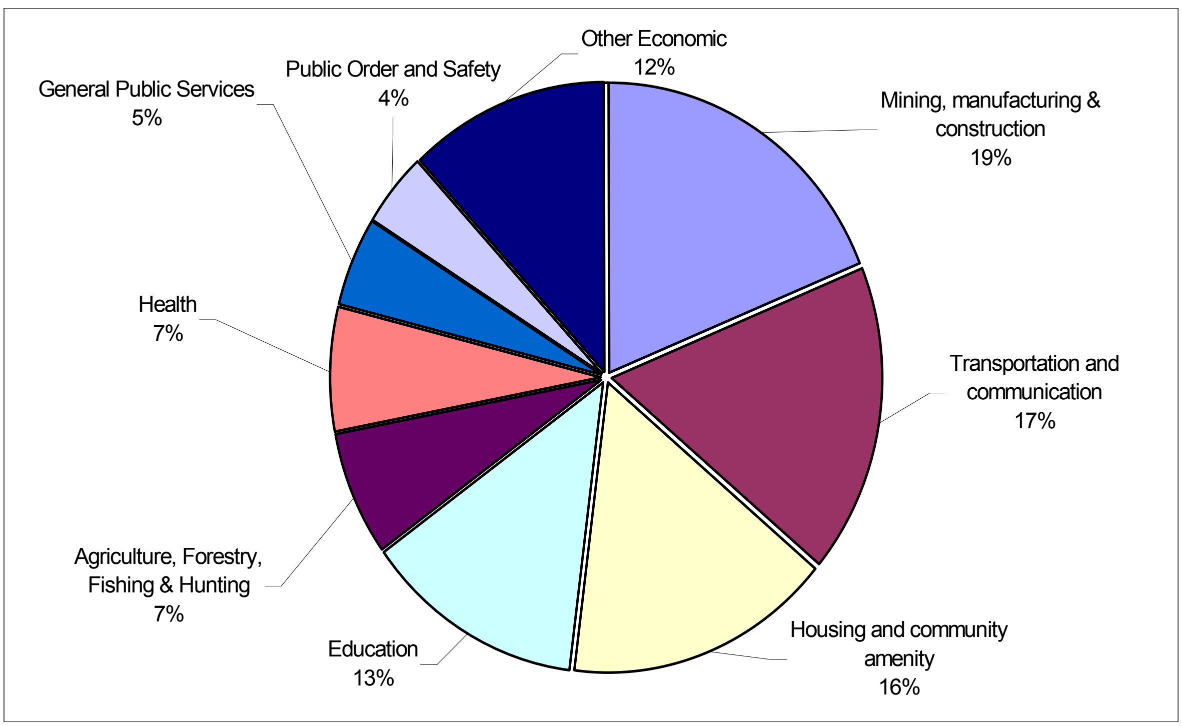
What should be done more to bring all donor assistance to government processes and accountability procedures?

First, the PER and MTEF forums should be used more effectively to entice all donors to move towards General Budget Support. Previous reservations related to low accountability of funds has been ameliorated with the introduction of the IFMS. Second, donors who prefer to continue disbursing funds off-budget should be requested to feed information of their support to the Ministry of Finance external department, including how the use of those funds can be tracked, monitored and accounted for in the government accounting processes.

6.0 IMPACT ON PRIORITY RESOURCE ALLOCATION

As Figure 1.2 illustrates, development resources appear to be disbursed widely across sectors. While education appears to have received increasing levels of funding compared with previous years, the data depicted below does not show apparent prioritisation.

Figure 1.2: Sectoral shares in development expenditure, 2003/04



Is the current move by MKUKUTA to remove prioritisation within sectors justifiable? My gut feeling is that we need prioritisation – particularly that allocates greater resources in infrastructure (roads, energy, housing (habitat), education, health and agriculture.

7.0 IMPACT ON IMPROVED ACCOUNTABILITY AND BETTER USE OF RESOURCES

Available data shows there has been marked improvement in accountability and use of budgetary resources. Spending units are now more accountable than before and resources are being used more transparently. Reviews by the Controller and Auditor General (CAG)indicates that there has been significant improvements in financial management at all levels (both central and local governments). CAG points to the fewer accounts audited that received adverse opinion. For example, of the Central Government Audited accounts in FY01 only 33% of the accounts received adverse certificates, which is lower than the 58% received in FY00. The FY02 CAG audit reports shows even more encouraging news with spending units receiving adverse opinion falling further to 27%. For regions, adverse opinion has fallen from 82% in FY00 to 67% in FY01 to a further 63% in FY02. Similar improvements have been achieved with regard to the 114 local authorities audited. The share of councils receiving adverse opinion declined from 64% in FY00 to 35% in FY01 to a further 31% in FY02.

The financial management improvements narrated above is matched by a decline in audit queries for ministries, regions and local councils. Similarly, the improvements have resulted in a decline in excess spending and in most cases savings have been realised on the recurrent expenditure side.

However, despite much improvement in recent years, there are weaknesses that need addressing. Some of these are:

- Non-responsiveness to CAG's queries by some accounting officers. This is partly due to lack of appropriate legal instruments for enforcement. It is therefore important for Government to establish a mechanism that will ensure all accounting officers respond to audit queries.
- Little or no action taken on officers suspected of embezzlement. CAG reports cite incidences of embezzlement of cash and stores, resulting partly from poor procurement and stores management. Government needs to ensure all cases of malpractice are dealt with through the country's legal system.

What else should be done to improve accountability and transparency in resource use?

There is need for further strengthening of public expenditure management systems and capacity. The most important step taken to date has been the establishment of an Integrated Financial Management System (IFMS). With technical support from donors in terms of equipment and capacity building, the IFMS is currently fully functional at the ministerial level for expenditure management. According to World Bank observations (World Bank PER FY03), " budget execution can be monitored in almost real time with the IFMS". Evaluations conducted by PER, Country Financial Accountability Assessment (CFAA) and the IMF's Public Expenditure Management Annual Assessment and Action Plan (AAP), all document how Tanzania's expenditure management systems have improved in recent years.

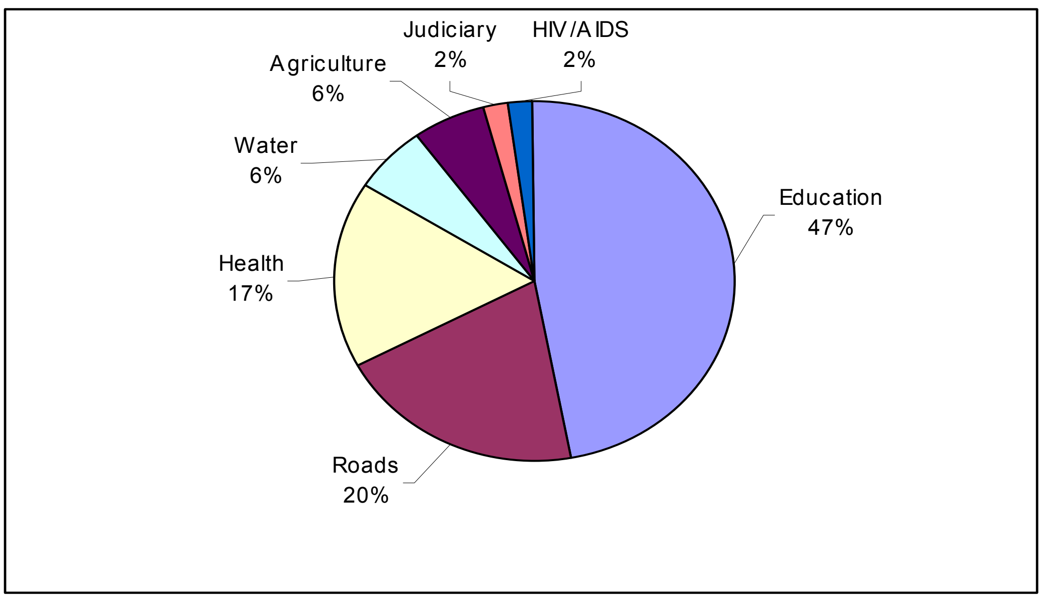
At the local government level, however, the IFMS system of expenditure management and control is not fully functional. Only 32 out of 114 local authorities have been hooked to the IFMS system. The plan is to rollout to an additional 30 during the 2004/05 financial year. However, although accounting capacity within the local authorities is weak, nearly all accounts are submitted on time, and audit opinions from the Controller and Auditor General (CAG) give indications of improvements in the use of public resources.

Despite much improvement in expenditure management using IFMS, further improvements are needed to capture foreign financed development expenditure in the IFMS. In addition, the Accountant General needs to ensure Ministries, Departments and Agencies (MDAs) submit reports on a quarterly basis in order to improve transparency of execution at the detailed level of expenditure.

8.0 IMPACT ON POVERTY REDUCTION

Have the poverty reducing expenditures been pro-poor? Is there any discernible impact on reducing poverty? The first step in answering the first question is to analyse the sectoral spending in the priority sectors. Figure 1.3 provides a summary.

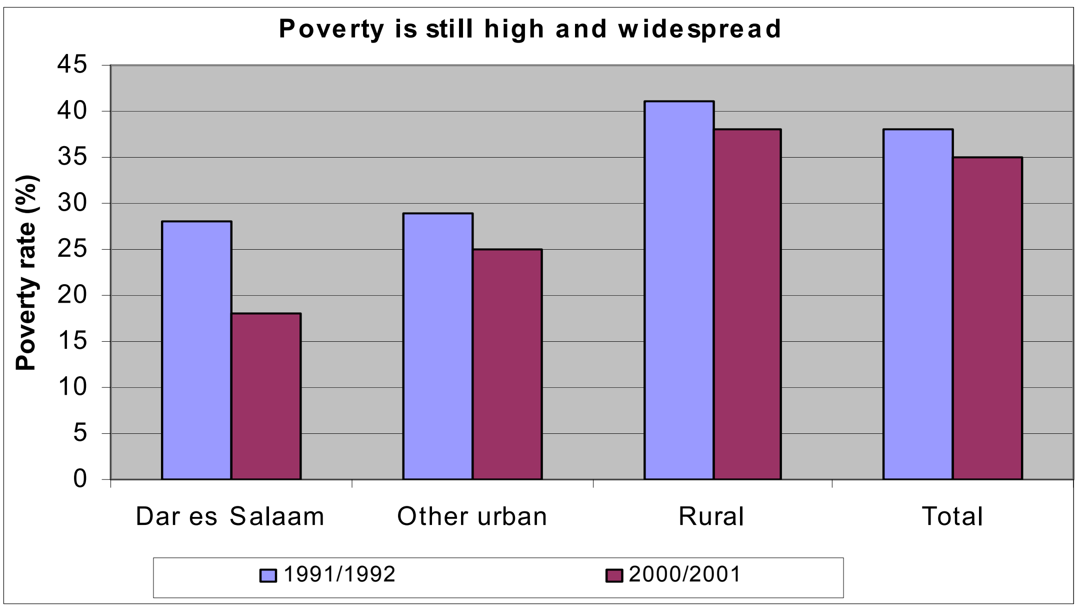
Figure 1.3: Priority Sector Spending 2003/04



Within the priority spending, education receives the largest share (47%) followed by roads (20%) and health (17%). Agriculture's share is only 6%. Are the spending pro-poor? The answer is partly yes. Spending in education is made across the board, in urban and rural areas where the majority of Tanzanians live. Similarly health and roads improvement are not entirely urban biased. However, for spending to exert more impact on the poor, resource allocation to the agricultural sector has to be increased. This is because the majority of the poor depend on agriculture for their livelihood.

Is there any discernible impact on reducing poverty? This is a complex question because actions taken now can have impact on reducing poverty in the medium and longer term. However, looking at available data, is Tanzania making progress towards reducing poverty? The available evidence is mixed. Figure 1.4 shows poverty is still widespread.

Figure 1.4: Tanzania is making little progress towards reducing poverty



Source: Based on Tanzania Household Budget Survey 1991/92 and 2000/01

The findings of two household budget surveys conducted in Tanzania, the first in 1991/92 and the second in 2000/01shows that in urban centres, especially in Dar es Salaam, poverty is declining – from about 28 percent in 1991/92 to 18 percent in 2000/01. However, in rural areas poverty shows no signs of abating, remaining above 35 percent between the two periods[6].

Table 1.5 provides comparative poverty indicators for Tanzania and some Sub-Saharan African countries

Poverty and Social Indicators	Tanzania	Ghana	Kenya	Uganda	Sub-Saharan Africa	Low Income countries
GNP per capita (US$, 2002)	280	270	360	250	450	430
Infant mortality (per 1,000 live births, 2001)	165	100	122	124	171	121
Child malnutrition (percent of	29	25	22	23		

[6] Income poverty, defined as people who live below US$ 1.0 per day.

children under 5, 2001)						
Access to safe water (percent of population, 2000)	52	73	57	98	58	82
Primary completion rate (2001, %)	60	64	63	65	57	68

Source: World Bank (2004), "World Development Report 2004".

Overall, as Table 1.5 indicates, Tanzania's poverty indicators are higher than for the average of low-income countries and in most cases worse than in Ghana, Kenya and Uganda. Other data not shown on the table indicate even worse situations. Life expectancy at birth, for example, has decline from about 54 years in the 1990's to 48 years in 2004 – in part due to the HIV/AIDS pandemic.

Why has poverty reducing expenditure exerted so little impact on poverty reduction?

Some analysts such as Sachs et.al. (2004) have argued that part of the reason relates to "poverty traps". Low savings (most people live at subsistence level), low investment, low technology and other structural impediments reinforce one another fostering a vicious circle of poverty. To break this circle of poverty, some analysts have argued that large-scale increases in resources going to the rural sector would be necessary in order to get the country across the relevant thresholds and set the country to sustained poverty reduction path. Since agriculture receives only 6% of the share in development spending, this share ought to be increased considerably to make much impact on poverty alleviation.

The second argument is that perhaps a considerable amount of the poverty reducing expenditures does not reach the very poor! Findings by Aart Kraay (2005) supports this view, contending that if corruption-related poverty traps are important, then large increases in resources directed at the poor could be counterproductive. To ameliorate this problem, Collier (2004) argues that tackling the underlying causes of poverty must be done in parallel with any large increases in development spending. The government of Tanzania has taken many steps to reduce corruption and recent Competitiveness Rankings shows a much improved situation compared with other countries such as Ghana, Kenya and Uganda (African Competitiveness Report 2004). However, much more effort is needed to ensure resources directed at the poor reach them.

9.0 CONCLUSION

In conclusion, it is worth noting that budgetary reforms undertaken especially in the past 10 years have been useful in fostering more credible budget processes and resource accountability. In particular, the cash budgeting system, by allowing spending units to incur expenditure only in relation to Ministry of Finance releases, has instilled discipline in financial management and expenditure. Over expenditure has been eliminated and cash budget has been an important instrument for controlling budget deficits. Further improvement is needed to make the cash budget more flexible, especially by extending quarterly releases to all spending units and subjecting donor assistance to government budget and accounting processes.

The introduction of PERs and MTEFs have been particularly useful in fostering wide stakeholder participation, holding spending units more accountable for resource use through an external evaluation and fostering the links between sector policies and resource allocation. Further improvements are needed to improve government ownership of these processes.

The impact of the reforms on revenue collection has been remarkable, with average revenue reaching over 12.5% of GDP in the past 10 years compared with less than 8% in the previous decade. Further improvements are needed to expand the narrow tax base, reduce tax exemption and streamline taxation system to improve voluntary compliance.

The impact of the reforms on poverty alleviation is weak, in part because efforts directed in this area such as prioritising education, health, and infrastructure can have noticeable impact only in the medium and longer term. Increasing funding to agriculture is vital in any efforts directed at reducing poverty because the majority of Tanzanians depend on this sector for improving their livelihood.

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