# Table of Contents

1.0 WORKSHOP OVERVIEW

1.1 BACKGROUND

1.2 COURSE CONTENTS

2.0 OPENING SPEECH

3.0 MODULE 1: LINKS BETWEEN MACROECONOMIC POLICIES AND MICRO POLICY PROCESSES

3.1 MACROECONOMIC STABILITY AND ECONOMIC GROWTH

3.2 ECONOMIC GROWTH AND POVERTY REDUCTION

3.3 GROWTH ORIENTED MACROECONOMIC POLICIES AND POVERTY

3.4 POVERTY EFFECTS OF MACRO-POLICIES: THE CASE OF TANZANIA

3.5 MACRO – MESO – MICRO LINKAGES

4.0 MODULE 2: THE MACROECONOMIC MODEL FOR TANZANIA (MACMOD)

5.0 MODULE 3: FINANCIAL PROGRAMMING AND MACROECONOMIC POLICY MAKING

5.1 FINANCIAL PROGRAMMING - ORIGIN

5.2 DEFINITION

5.3 FINANCIAL PROGRAMMING: SET UP AND PROCEDURES

5.4 BANK OF TANZANIA BALANCE SHEET

6.0 MODULE 4: TOOLS AND FRAMEWORKS FOR LINKING MICRO POLICY PROCESSES TO MACROECONOMIC POLICIES

6.1 SESSION 1: POLICY FRAMEWORK

6.2 SESSION 2 - MICRO PROCESSES/APPLICATIONS

6.3 SESSION 3: EFFECTIVENESS OF BUDGET EXECUTION

7.0 MODULE 5: ROAD SECTOR PER-MTEF CASE STUDY

7.1 LEARNING OBJECTIVE

7.2 POLICY MAKING, PLANNING AND BUDGETING

7.3 ROAD SECTOR PER (2004)

7.4 EMERGING ISSUES FROM THE PER-MTEF FRAMEWORK

8.0 WRAP UP AND THE WAY FORWARD

ANNEX

ANNEX 1: LIST OF PARTICIPANTS
1.0 WORKSHOP OVERVIEW

1.1 Background

The ESRF organized a training workshop on policy analysis for effective macroeconomic policy decisions in Tanzania targeting policy analyst and planners from government, non-government organizations and other stakeholders. The workshop was conducted from 14th to 18th March 2005 in Bagamoyo.

The aim of the training was to enhance knowledge and skills among policy analysts and planners, on available options for making macroeconomic decisions positively impact on micro policy processes. The intended outcome of the training is to improve performance of policy analysts and planners in management of micro level policy processes through increased understanding of the macroeconomic policy context.

The training in policy analysis for effective macroeconomic policy decisions in Tanzania, is an attempt by the ESRF to respond to the felt need for enhancing the skills and competences of government, private sector and non-government officials in creating linkages between macroeconomic and micro policy processes expressed in various research and training activities conducted by ESRF. The need is a result of raising concerns among policy actors in Tanzania on the seemingly missing link between macroeconomic performance and micro policy processes. While, the government brags of good performance in macroeconomic indicators, other policy actors perceive declining trends in outcomes of various micro economic policy processes.

The objectives of the training workshop were as follows:

- Examine the existing Policy Framework and its impact on making Public-Private-Partnership accelerate development specifically poverty reduction
- Introduce concepts techniques, methods and strategies for Macroeconomic Policy Decision Making
- Understand the micro processes feeding into the macroeconomic policy decision processes
- Improve understanding of Macroeconomic frameworks through lessons learned from experiences of other countries in the African Region and Elsewhere
- Understand the advantages and disadvantaged of Macroeconomic Policy Decision Frameworks by learning from those sectors in Tanzania that have made progress in the area
- Develop and equip participants with tools and strategies for translating and or using macroeconomic policy decisions in micro policy planning
- Develop plan of action and strategy for knowledge transfer and experience sharing among trainees after the training
The targeted participants were middle and senior level officers of government institutions; non-government organizations; private sector and other agencies engaged in various aspects of policy planning. This report gives a summary of the proceedings of the training workshop (including the modules presented).

1.2 Course Contents

Five Modules were delivered.

**Module 1**: Introduced trainees to links between macroeconomic policies with micro policy processes. Trainees were able to understand how major development policy frameworks such as MKUKUTA are influenced by macroeconomic policy decisions. The essence in this module was trainees to understand that growth matters for poverty reduction.

**Module 2**: Introduced trainees to MACMODE and its use in Macroeconomic Policy Decision Making. Specifically the module sought to answer the following questions like in what ways is MACMODE different from other macroeconomic policy decision-making frameworks used in Tanzania? What are the strengths and challenges of MACMODE in predicting macroeconomic performance in Tanzania? How can MACMODE help in assessing Distributional Impact of Macroeconomic policies?


**Module 4**: Introduced trainees to various Tools and Frameworks for Linking Micro Policy Processes to Macroeconomic policies: MDGS, MKUKUTA, Sector Strategic Plans, MTEF and Strategic Budget Allocation System (SBAS) including: Brief introductions to the various Tools and Frameworks, an understanding of how the tools and frameworks are linked and work to fit the sectors in broader macroeconomic framework? How micro policy processes are costed? And how is the costing influenced by macroeconomic policy decisions?

**Module 5**: Show cased the PER and MTEF to help trainees understand how macroeconomic policy decisions have influenced sector development processes.
2.0 OPENING SPEECH

By Mr. Arthur Mwakapugi – Director; Macro economy; Presidents’ Office Planning and Privatization

Professor Haidari Amani, Executive Director ESRF;
Distinguished Participants;
Ladies and Gentlemen.

It is both a privilege and honor to have the opportunity to deliver this opening address to such an esteemed gathering of policy analyst from government and private sector institutions dedicated to finding solutions to the many problems of bridging the gap between macroeconomic performance and outcomes of micro policy processes.

Before I begin, please allow me to give special thanks to the Economic and Social Research Foundation (ESRF) for organizing this training workshop. It comes at a time when issues of inadequate link between macroeconomic performance and policy outcomes at micro level are taking center stage in the development policy dialogue in Tanzania.

During the next five days you will be familiarized with four broad areas, which are critical for enhancing your knowledge and skills and consequently performance in policy management. You will focus on:

1. Links between macroeconomic policy and micro policy processes
2. Use of two major macroeconomic frameworks MACMOD and Financial Programming in making macroeconomic policy decisions
3. Various tools to help us link macroeconomic policies with micro policy process
4. Cases studies of sectors showcasing how major macroeconomic assumptions have been taken into account in coming out with micro policy decisions that are pro poor.

Dear participants, knowledge and skills gained during these five days is essential for you to be effective players in the current debate on the development agenda of Tanzania. During the past two decade, Tanzania has made significant progress in implementing economic reforms, which aimed primarily at macro-economic stabilization, the liberalization of the economy, and the withdrawal of the public sector from commercial activities.

These reforms have resulted in achieving macroeconomic stability in the country and acceleration of economic growth. Achievements include positive real growth, consistently declining inflation rates (single digit at least for the past 5 years) and improved fiscal performance – both in revenue collection and government spending. These achievements did
not come as a miracle but through policy decisions taken, and guided by frameworks, which you will be familiarized to during the next five days.

In order to sustain economic growth, policy makers face several challenges. The first is the continuation of these orthodox reforms, especially in areas where progress has been limited. The second challenge is to translate achievements at the macro-level into tangible human development. The third challenge arises from the changing role of economic management in Tanzania. Future economic management will require closer collaboration between the private sector and government, to make economic management more responsive to the pro-active identification and pursuit of new opportunities for the private sector. Stronger harmonization and coordination among government agencies is also necessary to ensure consistent policies and the efficient use of scarce resource human and financial resources in pursuit of higher economic growth. This training is specifically responding to these challenges by trying to familiarize you with issues related to macroeconomic policy and micro policy processes.

The National Strategy for Growth and Reduction of Poverty (NSGRP) rightly puts emphasis on economic growth as a key mechanism for reducing poverty and suggests a more proactive role of government in the pursuit of economic growth. While significant reforms and high economic growth of recent years is evident, poverty in Tanzania remains pervasive. Such a situation raises the problems of economic growth and inequality. Some economists consider long-term economic growth promoting policies as a sufficient measure for poverty reduction and growth of living standards. Others believe that economic growth does not necessarily lead to poverty reduction.

Notwithstanding that economic growth is the main source of poverty reduction, poverty reduction initiatives should primarily be targeted at redistributing income. The income distribution and redistribution process is also important from the viewpoint of sustainability. Traditional macroeconomics suggests that, when distribution is unequal, redistribution schemes will lead to a decline in economic growth or its pace. Moreover, economic growth may primarily facilitate an increase in inequality of distribution.

Summarizing, one can say that Tanzania and other developing countries have to pay particular attention to assessment of influence of economic policy not only on economic growth but also on income distribution, because these two factors together define the prosperity level and particularly the poverty incidence. It must be taken into account that economic growth and income distribution are interrelated variables and it is necessary to evaluate the relationship between them. This means that not only economic growth but also the share of newly created income received by the poor and the resulting decline in poverty should be evaluated.

I want to underline here that we must understand how macroeconomic policy decisions are arrived at, to help us come up with micro policies and actions that are consistent with
government efforts not only to maintain macroeconomic stability, but also to reduce poverty at the micro-level. I believe this training will enable participants obtain perspectives and insights on the effectiveness and scope for improvement of macroeconomic policy.

Let me once again thank the Economic and Social Research Foundation for organizing this important training workshop and you participants who decided to spare time to attend this workshop. I wish you all a fruitful 5 days session.

Thank you
3.0 MODULE 1: LINKS BETWEEN MACROECONOMIC POLICIES AND MICRO POLICY PROCESSES

By Prof H.K.R. Amani – Executive Director of ESRF

3.1 Macroeconomic Stability and Economic Growth

- Macroeconomic Stability
  Exists when key economic relations are in balance - domestic demand and output, balance of payment, fiscal revenues and expenditures, savings and investments.
  Macroeconomic instability – large current account deficit, high and rising levels of public debt, double digit inflation rates, stagnant or declining GDP etc.
  To enhance macroeconomic stability – support macroeconomic policies with structural reforms to strengthen and improve the functioning of markets and sectors (structural adjustments)

- Macroeconomic Stability & Growth
  Macroeconomic stability- cornerstone to success in economic growth. Macroeconomic instability – associated with poor growth performance. With instability, domestic and foreign investors will stay away, and resources diverted elsewhere.

3.2 Economic Growth and Poverty Reduction

- Growth – Poverty Debate
  Relationship between growth and poverty lies at the heart of development economics. Traditional argument – economic growth is necessary and sufficient for poverty reduction premised on the trickle-down effect. Current argument – economic growth necessary but not sufficient for poverty reduction

  Key factors that determine the impact of growth on poverty are i. Distributional Patterns of growth ii. Sectoral Composition of growth. Distributional measures necessary to ensure performance at macro level is translated into welfare at the micro-level.

3.3 Growth Oriented Macroeconomic Policies and Poverty

- Concepts of Macroeconomic Policies

  *Fiscal Policy* - Governments attempt to influence aggregate demand in the economy by regulating the amount of public expenditure and rates of taxation.

  Governments do not need to keep “balanced budgets” – they can run a budget surpluses or a budget deficit. Either borrowing or “printing money” can finance excess spending.
Excessively large deficits can be harmful, and when financed by expanding money supply its likely to be inflationary.

**Monetary Policy** - Governments attempt to influence aggregate demand in the economy by regulating the cost and availability of credit. Cost and availability of credit is influenced through open market operations, special deposits, and direct controls over lending by banks and other financial institutions.

**Supply Side Policies** - Policies designed to influence aggregate supply by improving the productivity of the free market economy. Examples include; *Deregulation* – involves the removal of government regulations, which hinder competition by restricting the actions of consumers and producers in one way or another. *Privatization* – a way of reducing government interference in a market economy. *Labour market policies* – policies to reduce the power of trade unions, to reduce labour costs, and increase the geographical and occupational mobility of labour.

Instead of demand-management policies, monetarists recommend supply-side policies, which are intended to improve the efficiency of the free market economy and so contribute to economic growth. Critics of supply-side economics insist that the economy does not have the long-run inherent stability assumed by monetarists and that government intervention is necessary.

Governments aim at pursuing macroeconomic policies (fiscal, monetary and exchange rate) consistent with macroeconomic targets (growth, inflation, external debt etc.). Fiscal policy impacts on the poor through Government’s overall fiscal stance; distributional implications of tax policy and public spending

- **Fiscal Deficit**
  No rigid pre-determined limit on what would be an appropriate fiscal deficit. Assessment based on particular circumstances facing the country, medium term macroeconomic outlook, and scope of external budgetary assistance.

- **Public Spending**
  Assess appropriateness of proposed poverty reduction spending program. Consider the distributional and growth impact of spending – pro poor spending. Evaluate the extent of government intervention justified on grounds of market failure/or redistribution.

**Tax Regime**
Medium term objective for many developing countries is to raise domestic revenue levels. However, equity concerns should be considered. Tax system should be assessed with respect to its direct and indirect impact on the poor. Tax policy should aim at moving towards a system of easily administered taxes with broad bases and moderate marginal rates.
Domestic budget financing
Depends upon a number of factors including’ sustainable rate of monetary growth, credit requirements of the private sector, relative productivity of public investment, and desired targets for net international reserves. Financing additional expenditure through faster monetary growth is generally not an effective means to reduce poverty, because the poor are vulnerable to inflation. Consider the extent to which public sector borrowing “crowds out” the private sector’s access to credit. However, at times public sector borrowing can also “crowd in” private sector investment by putting in place critical infrastructure necessary for private enterprises to flourish.

Grants and Loans
There may be limits to the amount of external financing that a country would deem appropriate. There could be absorptive constraints that could drive up domestic wages and prices as well as appreciate the exchange rate. There may also be uncertainty regarding aid flow, especially over the medium term. Consider long-term dependency on external official aid. Consider what amount of external grants is available and sustainable under present circumstances. Determine if the terms of borrowing are appropriate and if the added debt burden is sustainable.

Monetary and Exchange Rate Policies
Affects the poor primarily through three channels. i. Inflation, ii. Output, iii. The Real Exchange Rate (RER). Inflation hurts the poor because it acts as a regressive tax and curbs growth. Output clearly has a direct impact upon the incomes of the poor. The RER influences a country’s competitiveness and hence its growth rate. A change in the RER (through for example devaluation) can have a direct impact on the poor. Monetary and exchange rate policies should target those variables over which they have the most control. Example – targeting lower rate of inflation – what policies can help? strong and sustained fiscal stance, use of a nominal anchor (adopting a fixed or flexible exchange rate regime).

Fixed v/s Flexible Exchange Rate Regimes
Choice of exchange rate regime depends on the nature of economic shocks, and structural features of the economy. Different exchange rate regimes have different insulating properties vis-à-vis certain types of shocks. For example, -shocks to the terms of trade, - a flexible exchange rate regime may be best because the nominal exchange rate is free to adjust. Domestic monetary shocks (e.g. shocks to the demand for money) – output may best be insulated by a fixed exchange rate.

Challenge facing policy makers - identifying which shocks are predominant in a particular economy. Structural features of the economy may also affect the impact a particular shock has. For example the degree of openness of the economy -the more open an economy, the greater is its exposure to external shock – may favor a flexible exchange rate regime. The
various pros and cons of fixed versus flexible exchange rate regimes need to be carefully assessed on a case-by-case basis – there is no universally “correct answer”.

3.4 Poverty Effects of Macro-Policies: The Case of Tanzania
Over the past 10 years, Tanzania intensified macro-economic policy reforms with the aim of creating a more stable macroeconomic environment. These reforms were perused with the understanding that such stability was necessary to achieve sustained growth. Result - Tz has progressed significantly in reestablishing macroeconomic stability - positive real growth, consistently declining inflation rates, improved fiscal performance (both in revenue collection and government spending).

Tz has also produced and chartered out different poverty reduction initiatives under Vision 2025 (including NPES, PRS I, NSGRP). However, poverty remains widespread and deep, with almost half of Tanzanians living without access to basic needs of livelihood. Key Challenges – (i) sustainability of economic growth (i.e see to it that growth rates, which are high by historical standards, will continue to prevail). (ii) translation of macroeconomic achievements into poverty reduction.

3.5 Macro – Meso – Micro linkages
A macro-meso-micro framework helps to understand the forward and feedback effects of changes inflicted by policy. Policy makers and implementers often overlook linkages. Features of macro-meso and micro linkages in developing countries like Tanzania include, failure of micro-interventions to influence macro efforts, macro success without linkages to micro level; micro success without linkages to macro efforts (positive outcomes at local level failing to influence the macro level).

Critical factors that contribute to the disconnection include, perceptions and attitudes regarding each level (e.g. attitudes that government can plan for the people) – which then limits communication between macro-meso –micro levels; Information asymmetry and/or deficit – e.g. lack of information on the needs of the people leading to lack of knowledge on targets and delivery mechanisms; institutional mismatch between targets (needs) and delivery mechanisms; and unequal power relation, associated with conflicts of interests.

Effective macro-meso-micro linkages will require: Creating awareness of national and sectoral policies, plans, strategies and programmes down at the micro level; Focusing on programmes contributing to enhancing macro-micro-linkages (assessing demand of programmes before implementation); Commitment at macro and meso levels which could be demonstrated through institutional support and funding; Incorporating programmes in existing functional structures; and carrying out and replicate best practices.
3.6 Group Exercises/Discussions

Within the context of Tanzania, critically assess the following.

1. The success and/or failure of current macroeconomic policies in improving the supply-side conditions at the micro level in terms of access to economic opportunities, assets, productive inputs, credit, technology, employment, and the ability of the poor to save and invest.

2. The success and/or failure of linking policies (i.e. forward and feedback effects of changes inflicted by policy) along the macro-meso-micro framework.

3. The success and/or failure of the budgeting process in terms of address poverty issues at the micro-level

Group Presentations

Group 1.

Success Stories for Deregulation Policies

- Free movement of goods and services
- Widening of the market of goods and services
- Improvement of technology through technology transfer
- Increased employment

Failures of Deregulation Policies

- Different levels of economic development have often resulted into one-sided movement of goods and services (e.g. the case of East Africa). Deregulation has mostly benefited neighboring countries.

Success Stories for Privatization

- Has created employment opportunities
- Improvement in technology
- Increase of government revenue
- Increase in access to credit (accrued from the banking sector)

Failures of Privatization Policies

- Lack of local strategic investors
- Lack of capital to enable indigenous entrepreneurs purchase privatized industries
- Some of the privatize industries have had a negative impact on infant local industries.

Success Stories for Labor Market Policies

- There has been an increase in labor mobility.
Group 2.

**Failures in Linking Policies Along the Macro-micro Framework**

- There continues to be a mismatch between priorities at the local level with those at the macro-level.
- Harmonization of taxes has impacted negatively on traders in Zanzibar
- The low levels of inflation have yet to be reflected at the local level. It is not easy to relate the single digit inflation rates with prices at the micro-level.

Group 3.

**Failures of the budgeting process in terms of address poverty issues at the micro-level**

- Tax holiday given to investors does not increase the tax base and hence does not enhance poverty reduction initiatives.
- Budget allocations to the agricultural sector is still not enough to address agricultural development which is essential in achieving poverty reduction in Tanzania
- In the education sector, much has gone into the development of the infrastructure and very little into capacity building efforts.
4.0 MODULE 2: THE MACROECONOMIC MODEL FOR TANZANIA (MACMOD)

By Mr. Laston Msongole – Director for Policy and Information (President’s Office – Planning and Privatization)
5.0 MODULE 3: FINANCIAL PROGRAMMING AND MACROECONOMIC POLICY MAKING

By Mr. Johnson Nyella – Bank of Tanzania (BOT)

5.1 Financial Programming - Origin

The financial programming model was basically built, and it is still used mostly by the IMF to design adjustment programs for countries seeking its assistance to address balance of payment problem in a sustainable manner.

5.2 Definition

A financial program refers to a set of policy measures designed to achieve a given set of macroeconomic goals over a period of time. The goals can be simply to maintain the existing level of economic activity or, in case the economy is in disequilibria, to restore equilibrium between aggregate domestic demand and supply. A financial program provides a mechanism for assessing the implications of measures taken on some economic variables on other economic variables.

A financial program can either be passive or active.

A **passive financial program** provides an assessment of the effects of given measures, on other variables.

An **active financial program** identifies the desired (policy) measures in order to achieve a given objective or set of objectives.

Although was designed for countries facing macroeconomic disequilibrium, it is a suitable tool for economic policy formulation and thus, It should be prepared in every country regardless of the status of the economy.

5.3 Financial Programming: Set up and procedures

Not an econometric model. -Typically financial program is designed in a consistent accounting framework rather than as a typical econometric model. In an econometric model you get unique solution (one optimal solution). In an accounting consistent framework you get multiple, consistent solutions. You can eliminate the unreasonable ones until you are satisfied

- Relationship from the consolidated balance sheet of banks

*Summary of the banking sector*

\[ M = NDA + NFA \ldots \ldots \ldots \ldots \text{[1]} \]

*Where*
\( M = \) Money supply \\
\( NDA = \) Net domestic assets \\
\( NFA = \) Net foreign assets

**Money Supply Process**

\[ M = mM_0 \] \[2\]
Where \( m = \) Money multiplier

---

### 5.4 Bank of Tanzania Balance Sheet

*Take away the commercial banks*

\[ M_0 = NDA_0 + \text{NIR} \] \[3\]
Where \( M_0 = \) Reserve money \\
\( NDA_0 = \) net domestic assets of the BoT \\
\( \text{NIR} = \) net international reserves

**Demand for Money**

Money demand equation

\[ MV = py \] \[4\]
\( p = \) price level \\
\( y = \) real GDP

Denote \( py \) as \( Y \) (nominal GDP)

\[ M_d = k \cdot Y \] \[5\]
Where \( k = 1/V \)

**Market Clearing Assumption**

Money demand = money supply

\[ M_d = M_s \] \[6\]
\[ M_s = m \cdot M_0 \] \[7\]

---

### 5.5 Steps in Programming

\[ MV = py \] \[4\]
\[ M_d = k \cdot Y \] \[5\]
\[ M_s = m \cdot M_0 \] \[7\]
\[ M_0 = NDA_0 + \text{NIR} \] \[3\]

- **Balance of payments**

\[ \text{NIR} = \text{CA} + \text{FKT} + \text{FDI} + \text{NFB} \]
National disposable income
\[ GNDI = FCN + INV + EXP - IMP + NFY + FCT \]

\[ CA = GNDI - A \]
\[ NIR = GNDI - A + FKT + FDI + NFB \]

\[ CA = GNDI - A \]
\[ NIR = GNDI - A + FKT + FDI + NFB \]

\[ CA = GNDI - A \]
\[ NIR = GNDI - A + FKT + FDI + NFB \]

The balance of payments worsens to the extent that domestic absorption exceeds disposable income

- **Fiscal programming**

Expand the foreign financial account of BOP
\[ NFB = NFB_p + NFB_g \]

Expand the domestic credit of the banking sector
\[ DC = DC_p + NDC_g \]

\[ NFB = NFB_p + NFB_g \]
\[ DC = DC_p + NDC_g \]

\[ GVE - GVR = NFB_g + NDC_g + PBR_g \]
6.0 MODULE 4: TOOLS AND FRAMEWORKS FOR LINKING MICRO POLICY PROCESSES TO MACROECONOMIC POLICIES

By Dr. Innocent Karamagi – University of Dar-es Salaam (UDSM)

6.1 Session 1: Policy Framework

Introduction

**Issue:** Need to link micro and macro-policies
Is there consistency between policies at macro and micro levels?

**Challenge:** If macro policies are working well, why hasn’t it shown impact in reducing poverty at micro levels?

Is it in the way we assess the impact?
- Poverty monitoring systems (PMS) not sufficing?
- Data, frequency, analysis

How does the system work to fill in the policy gaps?
- Do we have **safety nets** for those at the receiving end?

**Selected Tools/ Frameworks**
- NSGRP (MKUKUTA)
- MDG’s
- Sector strategies
- MTEF
- SBAS

**Historical Roots**
At independence 1961 – Tanzania (Mainland), President Nyerere identified **three enemies** of development - Income poverty, illiteracy and diseases

Implication: All the three are just a manifestation of the same problem – **poverty**. Real independence called for liberation from these enemies. Hence, all efforts have been geared at fighting poverty

**NSGRP**

**Genesis**
Vision 2025 – long-term goals in terms of poverty eradication, human development, good governance and stability.
NPES – attempt to provide medium to long-term framework and targets towards the vision.

PRS(P) – 2000-03 – Narrowly focused (few priority areas/sectors), Limited resources, Short span, Problems of ownership.

NGRSP (2005-2010) – Wide consultations, comprehensive (includes all areas), longer time span – resources, implementation, assessment; outcome-based, ownership inclusive

**MDG’s**
Part of Millennium Declaration – 2000, augmentation of original IDT’s. MDG’s value addition to IDT’s – specific time frame for goals and targets set for 2015. Goals on extreme poverty, social services, HIV/AIDS, environment, gender equality. Link with National policy frameworks.

**Observations on Goals**
Initial situations of countries different, hence difference in attainment. Goals set at national levels – hence individual countries should consider internal spatial disparities

**MTEF**
Top-down – resource envelope
Bottom up – estimation of costs – current and medium term
Matching costs with resources in the context of budget
PRS + Sector Strategies – policy priorities;
MTEF – discipline for choices – i.e, link btn poverty reduction targets (desirability) and budget (affordability). Value addition – improvement in budget formulation and strengthened links btn sector policies and allocations.

**6.2 Session 2 -Micro Processes/ Applications**

**Sector strategies**
Roles of Sector strategies recognized in the NSGRP.

Compatibility – To what extent are strategies and programmes of different sectors linked?
  - Outcome based approach in NSGRP
What are the problems of implementing sector programs?
NSGRP encompass these strategies; is there any benefit in terms of implementation of the sectoral programmes

**Costing NSGRP**
Importance of the costing exercise – makes a difference between success and failure. reliability of sources and correct estimate of uses as to needs.

Total Envelope – difficult of complementarities (due to synergies)
Partial - important interventions may be left out
Approaches
- Average approach
- Cost Effectiveness
- Multivariate/determinant analysis

Borrowing from MDG’s costing
- Models still being worked out
- Models generalized; hence they should be tailored to local situations

**Budgeting Process**

**Needed:** Good govt. intentions and pro poor budget
- Govt. needs to be committed to poverty reduction; but as well the budget should be pro poor.

Some aspects of pro poor budget
- Earmarked resources; chances of misusing the resources – hence need framework in place to cater for untied funds
- Need based allocation formula
  - population structure
  - weights according to needs
  - specificity of situations
  - availability of alternative means of funding

**NSGRP and MTEF**

Rationale for MTEF
- Budget period short for changes in expenditure patterns or changing priorities (leaving low value activities)
- systematic procedure that improves decision making, hence assurance of proper PEM

**TZ Experience**
- Replacing RBFP in 1998
- Managed through PER WG – Macro and sector groups; broad participation – exposure to scrutiny

Preparation of MTEF
- Defn of envelope and resource allocations – to Budget Guidelines, etc.
- Detailed sectoral programmes – ceilings (Details p.10)
Results: Resources increase towards priority activities

SBAS
Do actual expenditures reflect poverty reduction goals?
If yes, then we have a strategic budget allocation system (given that poverty reduction goal is our objective).

Factors
- Institutional arrangements
- Structure of Budget – showing explicit the link between resource allocation and policy objectives, credible mechanism for forward resource planning, resources being delivered as planned, compliance being assessed and enforced

Evolution
Functional classification of budget; performance budgeting; Integrated Financial Management system (IFMS) and now SBAS. (See pamphlet - for demonstration)

6.3 Session 3: Effectiveness Of Budget Execution

Definition of Effectiveness
- The use of govt resources such that the activities involved have greater impact in terms of achieving the objectives

Some Issues to consider
- How is the govt revenue utilized to meet the expenses it is supposed to fund
- To what extent is diversion of funds a problem
- Other issues include
  - Management of human resources,
  - Control of corruption
  - Structure of administration such that it can respond to evidence of performance or underperformance

PER - Functions;
- Support budget process – MTEF; Budget Guidelines, and analysis of composition of Govt. spending.
- Support dev of PEM, and ensures transparency.

CFAA
Considers strength of fin. Accountability processes (public + private). Facilitate common understanding of country’s financial management arrangement; agree on way forward.
Areas for strengthening and risk involved in relation to use of public funds.

Note: CFAA is not an audit; cannot substitute report on the status of financial accountability addition to Auditor General’s Report.
7.0 MODULE 5: ROAD SECTOR PER-MTEF CASE STUDY

By Dr. S. Kaare & Mr. D. Rweyemamu - ESRF

7.1 Policy Making, Planning and Budgeting

PER-MTEF Framework – allows expenditures to be driven by policy priorities and disciplined by budget realities. Current policies and strategies – geared towards enhancing the economy to reduce poverty. The road network is essential in attaining development objectives. The road sector is one area of focus in current policies and strategies. PRS targets set out in the road sector includes rehabilitation of 4,500 km of regional roads in 12 identified poorest regions by 2003.

7.2 Road Sector PER (2004)

What was done? Review and Update of PER 2003; major findings, action taken and pending issues; Review of the road sector (network and condition); Physical status of the road sector (including length, classification, and condition of roads). Objective – to bring into picture the current status of the road network so as to set stage for reviewing funding situation.

Analysis of Road Sector Revenue and Budget.

Sources of revenue (RFB, treasury and donors). Allocations (trunk & regional roads, LGAs); and Resource gap

Review of Sector Performance

Physical and financial achievements; Poverty Reduction targets and achievements; Review of Cross Cutting Issues in the Sector - Gender, HIV/AIDS, and the environment

Projected Road Maintenance Requirements (Costs) & RF Collections (Revenues): 2004 - 2007

Projected Road Maintenance Requirements; Unit cost of road maintenance (given) is based on specific road works. Given costs cover: Routine maintenance for roads in good condition; Periodic maintenance for roads in fair condition; and Spot improvement for roads in bad condition;

Road length projections – based on the road network length at base year and the specific road works, which result into upgrading of roads.

Projected Maintenance Requirements

<table>
<thead>
<tr>
<th>Projected Length of Network (km)</th>
<th>Maintenance Rate (million Tshs)*</th>
<th>Projected Financial Requirements (million Tshs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Routine</td>
<td>25,394 33,111 41,243</td>
<td>1.42 36059.48 47017.62 58565.06</td>
</tr>
</tbody>
</table>

Training Workshop on “Policy Analysis for Macroeconomic Policy Decisions in Tanzania”
| Periodic | 5,161 | 5,161 | 5,161 | 18 | 92,898 | 92,898 | 92,898 |
| Spot | 26,839 | 19,122 | 10,990 | 10 | 268390 | 191220 | 109900 |
| Bridge Maintenance | 0.95 | 502 | 534 | 554 |
| **Sub-Total** | **397,849.48** | **331,669.62** | **261,917.06** |
| VAT | 79,569.896 | 66,333.924 | 52,383.412 |
| Administration Costs | 7.32 | 3,872 | 4,116 | 4,271 |
| Road Safety and Axle Load Control | 1.54 | 815 | 866 | 899 |
| Other Charges | 5.28 | 2,793 | 2,969 | 3,081 |
| Contingency (for emergency maintenance, etc.) | 15 | 9,131 | 9,706 | 10,073 |
| **Grand Total** | **494,030.38** | **415,660.54** | **332,624.47** |

**Financial Resources**

Proposals put forward since 2000 to widen the Roads Fund Base.

- License fees for all vehicles.
- 40% increase of excise duties on fuel
- 10% of VAT and import duty on fuel
- Transit charges on foreign vehicles permit
- Tourist infrastructure accessibility fee

However, it wouldn’t have been appropriate to increase any of the above, until their impact on the economy as a whole was assessed. Benefits that might accrue to the road sector must first be measured against the overall impact on the economy. Other sectors would also be affected by higher costs of transportation and production. Projection of financial resources was therefore based on realistic rate of growth of the economy assumed to be 5.5%.

**Projected Maintenance Requirements and RF Collections**

The Road Fund collection for 2002/03 was Tshs. 59,390,122,

<table>
<thead>
<tr>
<th>Year</th>
<th>2004/05</th>
<th>2005/06</th>
<th>2006/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected RF Collection</td>
<td>66,102,689</td>
<td>69,738,336</td>
<td>73,573,944</td>
</tr>
<tr>
<td>Development (10%)</td>
<td>6,610,269</td>
<td>6,973,834</td>
<td>7,357,394</td>
</tr>
<tr>
<td>Maintenance (90%)</td>
<td>59,492,420</td>
<td>62,764,502</td>
<td>66,216,550</td>
</tr>
<tr>
<td>Maintenance Requirements</td>
<td>494,030.38</td>
<td>415,660.54</td>
<td>332,624.47</td>
</tr>
<tr>
<td>Shortfall for Maintenance</td>
<td>434,537.96</td>
<td>352,896.04</td>
<td>266,407.92</td>
</tr>
</tbody>
</table>

**7.3 Emerging Issues from the PER-MTEF Framework**

- Need for widening the resource envelop.
- Interpretation of government decision to waive VAT on road works.
- Autonomy of Road Agency consistent with Tanzania’s ratification of the SADCC Model.
• Funding to take into account absorption capacity of LGAs.
• Identification of the strategic road network.
• Weak capacity of local contractors.
• Harmonization of donor procurement procedures.
• Integration of cross cutting issues.
• Strengthening monitoring and reporting.
8.0 WRAP UP AND THE WAY FORWARD
<table>
<thead>
<tr>
<th>NAME</th>
<th>INSTITUTION</th>
<th>E-MAIL</th>
<th>TELEPHONE</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Mayawalla</td>
<td>Ministry of Justice &amp; Constitutional Affairs.</td>
<td><a href="mailto:Amayawalla2000@yahoo.com">Amayawalla2000@yahoo.com</a></td>
<td>2123528</td>
</tr>
<tr>
<td>G. Mbavu</td>
<td>Ministry of Agriculture &amp; Food Security</td>
<td><a href="mailto:amibavu@yahoo.co.uk">amibavu@yahoo.co.uk</a></td>
<td>0744-313961</td>
</tr>
<tr>
<td>T. Shekabughi</td>
<td>Ministry of Agriculture &amp; Food Security</td>
<td><a href="mailto:Atfaidddy2003@yahoo.co.uk">Atfaidddy2003@yahoo.co.uk</a></td>
<td>0744-992648</td>
</tr>
<tr>
<td>A.P. Chamanga</td>
<td>Ministry of Agriculture &amp; Food Security</td>
<td><a href="mailto:apchamanga@yahoo.com">apchamanga@yahoo.com</a></td>
<td>0741-833962</td>
</tr>
<tr>
<td>A.J. Mndeme</td>
<td>Ministry of Agriculture &amp; Food Security</td>
<td><a href="mailto:amndeme@yahoo.com">amndeme@yahoo.com</a></td>
<td>0741-247423</td>
</tr>
<tr>
<td>Khatib M. Khatib</td>
<td>Ministry of Finance and Economic Affairs - Zanzibar</td>
<td><a href="mailto:kmwadini@yahoo.com">kmwadini@yahoo.com</a></td>
<td>0747-471142</td>
</tr>
<tr>
<td>Edwin Makamba</td>
<td>President’s Office – Planning and Privatization</td>
<td><a href="mailto:edwinnassa@yahoo.com">edwinnassa@yahoo.com</a></td>
<td>0748-424800</td>
</tr>
<tr>
<td>J.J. Makame</td>
<td>Ministry of Finance and Economic Affairs - Zanzibar</td>
<td><a href="mailto:jjmakame@yahoo.com">jjmakame@yahoo.com</a></td>
<td>0747-428132</td>
</tr>
<tr>
<td>Theresia Msaki</td>
<td>Ministry of Agriculture &amp; Food Security</td>
<td><a href="mailto:msakitheresia@yahoo.com">msakitheresia@yahoo.com</a></td>
<td>0744-306147</td>
</tr>
<tr>
<td>John P. Mnzeru</td>
<td>President’s Office – Planning and Privatization</td>
<td><a href="mailto:johnmnzeru@yahoo.com">johnmnzeru@yahoo.com</a></td>
<td>0744-568867</td>
</tr>
<tr>
<td>Grace Rusibamayila</td>
<td>Ministry of Communication and Transport</td>
<td><a href="mailto:Cagrazza2003@yahoo.com">Cagrazza2003@yahoo.com</a></td>
<td>0741-673021</td>
</tr>
<tr>
<td>Yohana E. Ngao</td>
<td>Ministry of Communication and Transport</td>
<td><a href="mailto:Minga577@yahoo.com">Minga577@yahoo.com</a></td>
<td>0744-325580</td>
</tr>
<tr>
<td>Peter M. Mhimba</td>
<td>Ministry of Communication and Transport</td>
<td><a href="mailto:pmhimba@yahoo.com">pmhimba@yahoo.com</a></td>
<td>0745-912104</td>
</tr>
<tr>
<td>Geoffrey N. Mackanja</td>
<td>Ministry of Cooperatives and Marketing</td>
<td><a href="mailto:mackanja@yahoo.com">mackanja@yahoo.com</a></td>
<td>0748-423197</td>
</tr>
<tr>
<td>Hassan Chimepele</td>
<td>Confederation of Tanzania Industries (CTI)</td>
<td></td>
<td>0748-937993</td>
</tr>
<tr>
<td>Angela Shayo</td>
<td>President’s Office – Planning and Privatization</td>
<td><a href="mailto:angeluforo@yahoo.com">angeluforo@yahoo.com</a></td>
<td>0748-761676</td>
</tr>
<tr>
<td>Salome Kingdom</td>
<td>President’s Office – Planning and Privatization</td>
<td>Salome <a href="mailto:1@hotmail.com">1@hotmail.com</a></td>
<td>0741-533906</td>
</tr>
<tr>
<td>Juvenal Lema</td>
<td>President’s Office – Planning and Privatization</td>
<td><a href="mailto:juvenallema@yahoo.co.uk">juvenallema@yahoo.co.uk</a></td>
<td>0748-301432</td>
</tr>
<tr>
<td>Tertula Swai</td>
<td>President’s Office – Planning and Privatization</td>
<td><a href="mailto:tmswai@yahoo.com.au">tmswai@yahoo.com.au</a></td>
<td>0744-605019</td>
</tr>
<tr>
<td>Rahma S. Mahfoudh</td>
<td>Ministry of Agriculture &amp; Food Security – PADEP</td>
<td><a href="mailto:raofasa@yahoo.com">raofasa@yahoo.com</a></td>
<td>0747-453504</td>
</tr>
<tr>
<td>Saada M. Salum</td>
<td>Ministry of Finance and Economic Affairs - Zanzibar</td>
<td><a href="mailto:Saadasalim@hotmail.com">Saadasalim@hotmail.com</a></td>
<td>0748-812989</td>
</tr>
</tbody>
</table>

ANNEX