



Overseas Development Institute

# How, When and Why does Poverty get Budget Priority

## Poverty Reduction Strategy and Public Expenditure in Tanzania

*Case Study 3*

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Felix Naschold and Adrian Fozzard

**Working Paper 165**

Results of ODI research presented in preliminary  
form for discussion and critical comment

**Working Paper 165**

**How, When and Why Does Poverty Get Budget Priority?**

Poverty Reduction Strategy and Public Expenditure in  
Tanzania

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## **How, When and Why does Poverty get Budget Priority?**

### **- about the research series**

This is the synthesis paper of CAPE's research on *How, When and Why does Poverty get Budget Priority?* It is based upon the findings of five country case studies. The full list of research papers in this project is as follows:

- |                        |   |
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## Acronyms

CAG	Controller and Auditor General
CCM	Chama cha Mapinduzi
CFAA	Country Financial Accounting Assessment
CSD	Civil Service Department
ERP	Economic Recovery Project
ESAF	Enhanced Structural Adjustment Facility
GDP	Gross Domestic Product
GER	Gross Enrolment Ratio
GoT	Government of Tanzania
HDI	Human Development Indicators
HIPC	Heavily Indebted Poor Countries
IDA	International Development Agency
IFMS	Integrated Financial Management System
IFI	International Financial Institutions
ILO	International Labour Organisation
IMF	International Monetary Fund
LA	Local Authority
LGRP	Local Government Reform Project
MDA	Ministries, Departments and Agencies
MOF	Ministry of Finance
MRALG	Ministry of Regional Administration and Local Government
MTEF	Medium Term Expenditure Frameworks
NER	Net Enrolment Ratio
NESP	National Economic Survival Programmes
NGO	Non Governmental Organisation
NPED	National Poverty Eradication Division
NPES	National Poverty Eradication Strategy
OC	Other Charges
ODA	Official Development Assistance
PERs	Public Expenditure Review
PFP	Policy Framework Paper
PPA	Participatory Poverty Assessment
PRSP	Poverty Reduction Strategy Paper
PTR	Pupil Teacher Ratio
RPFGB	Rolling Plan and Formal Budget
SAP	Structural Adjustment Programme
TAS	Tanzania Assistance Strategy
TGNP	Tanzania Gender Networking Programme
UPE	Universal Primary Education

# 1 Introduction and Country Background

This working paper is one of five African case studies aimed at understanding the factors influencing the priority given to poverty within the budget process and the effectiveness with which it is addressed. This study is based on a review of the extensive existing literature, and on a series of structured interviews with participants in the policy process in government, civil society and the donor community during February and March 2001.

This introductory section provides some country background, followed by a discussion of poverty and poverty policy in section 2. Sections 3 and 4 examine public expenditure and its impact on poverty, and the institutional framework of public sector reforms. Public expenditure management issues are investigated in section 5, followed by a discussion of poverty and public expenditure information and analysis in section 6. Section 7 examines public sector transparency, legislative oversight and participation of civil society. Section 8 concludes with a discussion of the research hypotheses that are common to all six case studies.

## **Economic reforms**

The last 20 years in Tanzania have been marked by some fundamental economic and political changes (see Table 1). As any analysis of the link between poverty and budgets needs to be undertaken in the context of such changes, this section will briefly outline the main transformations.

From the Arusha Declaration in 1967 until the mid-1980s Tanzania followed a socialist path to development, relying on a strong state to deliver equitable benefits across the entire country. The socialist economic model was characterised by central government controls in all key areas of economic policy: investment planning and restrictions on private activities; prices, wages, and interest and exchange rates; rationing of capital and foreign exchange, and banking. Private sector activities were restricted through regulations and licences (Likwelile 1998), public sector received preferential credit (Ndulu and Hyuhu 1984), and a small number of parastatals controlled foreign trade (Moshi and Kilindo 1995).

During the 1970s Tanzania was hit by a series of crises leading to economic collapse. Initially the government tried to turn around the economy through the National Economic Survival Programmes (NESP 1 and 2) in 1981-2, which were part of an application to the IMF. The programmes were probably unrealistic from the outset and proved ineffective in achieving their main aims to control inflation and stimulate exports, resulting in further increases in budget deficits.

The period between 1982 and 1985 saw a steep decline in economic activity, which the government attempted to address through its own Structural Adjustment Programme (1982/3-1984/5). This programme was more ambitious than the NESPs and started to address some macroeconomic and structural constraints through e.g. modest devaluation, but the gap between official and parallel exchange rates remained large, and further restrictions in fiscal and monetary policies did not reverse the economy's decline.



**Table 1: Reform Timeline**

	<b>Governance and Public Administration Reform</b>	<b>Economic Reform</b>	<b>Public Expenditure Reforms</b>	<b>Poverty Reduction</b>
<b>1981</b>		National Economic Survival Programme (NESP I)		
<b>1982</b>		NESP II		
<b>1983</b>		Second homegrown Structural Adjustment Programme		Household budget survey.
<b>1984</b>		Modest currency devaluation and start of import liberalisation		
<b>1985</b>	Nyerere retires as president			
<b>1986</b>		Devaluation and standby agreement with the IMF and SAP with World Bank		
		Start of ERP I		
<b>1989</b>		ERP II (till 1992)		
<b>1991</b>	Start of Civil Service Reform Programme	Financial sector adjustment programme		Household budget survey.
<b>1992</b>	Opposition parties allowed to register. Parastatal Reform Commission formed	First private banks licensed.		Riots to protest cost sharing in higher education.
<b>1993</b>		Abolished all trade restrictions (except for petroleum products, and goods restricted for health and security reasons). Interest rates liberalised.	Rolling Plan and Forward Budget (RPF) replaces 5 year plan.	
<b>1994</b>	Removed government control over more than half of parastatals (till 1999).	Marketing and processing of traditional export crops opened to private sector.	Nordic countries (except Denmark) suspend aid payments over large rise in tax exemptions. IMF cancels adjustment programme, pulls out.	
<b>1995</b>	First multi-party elections.			Participatory Poverty Assessment. Health sector reform approved.
<b>1996</b>	Tanzania Revenue Authority established.		Cash budgeting introduced. Shadow programme with IMF, followed by ESAF. Nordic countries enter into partnership agreement with Tanzania. Started to set up sub treasuries.	
<b>1997</b>		National Bank of Commerce split. New investment code adopted. Reduced number of tariff rates from 7 to 4, and top rate to 30%.	MTEF replaced RPF.	Social sectors fully protected under cash budgeting.
<b>1998</b>	Anti-corruption law passed.	VAT introduced. Eliminated export duty on traditional exports.	Multilateral Debt Fund set up. External Debt Strategy adopted. Started debt management system to monitor overall public debt. Performance budgeting pilot.	National Poverty Eradication Strategy adopted. Basic Education Master Plan start of implementation.
<b>1999</b>	Local Government Reform Programme & National Anti-Corruption Strategy and Action Plan launched.	Reform of Tanzania Investment Centre. Major tariff reform, reducing maximum tariff to 25%.	New payroll system installed. Performance budgeting introduced for all central agencies.	Poverty and Welfare Monitoring Indicators Published.
<b>2000</b>	Second multi-party elections.	HIPC decision point.	Expenditure commitment monitoring system set up in all ministries. IFMS introduction started.	Full PRSP finalised. Household Budget survey conducted.
<b>2001</b>		HIPC completion point.	CFAA. PERs in priority sectors.	Poverty Monitoring Master Plan prepared. Initial results from the HBS.

Gradual macroeconomic and trade reforms began in 1984 with partial import liberalisation, followed by bolder reform efforts under the first Economic Recovery Programme (ERP I) during 1986-89. However, internal opposition to the ERP meant that the early thrust of ERP was more crisis management than a definitive move to a market-oriented economy (Mans in Levin (2001)), but it still met with donor approval and formed the basis of a new relationship with the international financial institutions. The World Bank noted a reluctance to implement structural changes, and that government ownership was mixed. 'Although the Bank was able to reach agreement with the Government on significant policy changes in a number of areas, the process was one of 'negotiation' rather than 'dialogue' with the Government often feeling that it was being forced to make policy changes because the country needed financial assistance' (World Bank 2000:4). The Government didn't own the PFP and wanted it kept to the minimum number of actions needed to get IMF agreement. During these early reform years economic growth rebounded to 3-4% in 1985-91, but inflation remained above 30%.

The second ERP, also known as the Economic and Social Action Plan, continued the path of structural adjustment, but was designed to give greater prominence to the social consequences of reform. While the two programmes successfully addressed some macroeconomic and structural distortions, particularly in the interest and exchange rates, they did not manage to contain the negative impact of adjustment had on the poor.

In the early the 1990s reforms continued. Controls on agricultural input and output markets and prices were abolished, restrictions on traditional exports and retention of export receipts were removed, quantitative import controls were lifted, taxes simplified, and a market-based exchange rate system was introduced 1994 (World Bank 1996). The emphasis of reform gradually shifted from first generation macro reforms to second generation reforms such as privatisation and civil service reform. The Rolling Plan and Forward Budget (RPFb), and the Policy Framework Papers replaced the Five-year Plans.

Progress with reforms lapsed temporarily in 1993-5, and the fiscal balance deteriorated. In late 1994 the IMF, and even the Nordic donors, suspended their aid programme. Growth rates dropped to an average of 1.3% for 1992-95. Reforms got back on track when in early 1996 the new Mkapa government commenced on a new wave of reforms addressing fiscal management and structural institutional issues, including deregulating investments, divesting public enterprises, establishing free resource and product markets, and restructuring the financial sector. As a result the size of the state has shrunk, markets operate more freely than before, and Tanzania made considerable progress towards stabilising the economy and reducing budget deficits, as the RPFb was replaced by the MTEF in 1997. Inflation dropped from over 30% in the early 1990s to under 6% in June 2000, the lowest in 15 years. Economic growth per capita increased from -1.5% per annum between 1979 and 1985<sup>1</sup> to 0.6% between 1986 and 1998. Overall average growth rates were more stable than in the past, even during times of adverse weather conditions in the last three years, which prior to reform tended to lead to negative growth rates (World Bank 2001). Export volumes of principal agricultural commodities have experienced upwards trends, though with large year-on-year fluctuations. Growth rates in 2000 have climbed to 5.2%, their highest level in twenty years, but per capita growth is much lower, and too low to achieve the poverty targets (Eele et al. 1999). Danielson (2001) for example argues that Tanzania needs a growth rate of 7-8% to visibly impact on poverty.

Accompanying these relatively positive recent macroeconomic developments are concerns that adjustment and its cuts in social services continue to hurt the poor. Indeed, the non-income measures of poverty show a mostly grim picture over the 1990s (see Section 2). The future impact

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<sup>1</sup> These averages are based on official statistics. Bevan et al (1988) estimate that incomes probably fell by even more than that.

of the HIV/AIDS pandemic threatens to outweigh any past gains, and potentially, most future improvements in human development.

## **Political developments in the 1990s**

Tanzania was a one-party state from independence with limited political activity. From the late 1980s pressures for democratic change built up both inside and outside the country (Temu and Due 2000). From 1992, discussions widened from concerns about poor public service delivery to strengthening democracy. However, a presidential commission survey in 1991 revealed that around three quarters of the population continued to favour the one-party system, and the ruling *Chama cha Mapinduzi* (CCM) only allowed opposition parties after pressure from abroad. The donor community gradually moved to stressing good governance, and democratisation became part of outside conditionalities (Vener 2000).

Perhaps, however, outside pressures were not as important as internal ones from a select group of academics and senior civil servants. The Nyalali Commission appointed by President endorsed changes towards multi-partyism and also identified forty unconstitutional and repressive laws (Vener 2000). The ruling party was separated from the government, legislation was passed permitting a multi-party system, trade unions and co-operatives were separated from the party, and greater freedom of speech and association was allowed. The first multiparty elections in 1995 included 14 political parties, with four key contenders. CCM won 59% of votes and 80% of seats; Benjamin Mkapa won 62% of the presidential vote.

Democratisation has not reached much beyond multi-party elections (Tripp 2000). Initial resistance from within the political system to reforms was strong. Reforms were seen as capitulating and selling out to international capital. During the second half of the 1980s Cabinet was still dominated by left-wing hardliners, resisting reforms. The reformers only consolidated their control of the political direction over the course of the second half of the 1990s. CCM has not denounced its socialist orientation. While it has allowed the number of private TV and radio stations to rise rapidly, it still enjoys preferential access to the state media (Klugman, Neyapti and Stewart 1999). The CCM is weakened by eroded legitimacy, and the loss of monopoly of subsidies in 1995, though it continues to control central Government and all 105 local authorities (Therkildsen 2000).

To date the multiparty system has done little to change the way in which politics is conducted (Tripp 2000). Parliament remains weak as a watchdog, partly as it has traditionally supported rather than challenged government's policy and expenditures (Bigsten et al. 2001:332). Opposition parties are weak and fragmented, and haven't sufficiently challenged government's reforms.

Civil society involvement in policy dialogues began in the mid-1980s, as Government started to relax the suppression of civil society. In 1984 a group of economists from the University of Dar es Salaam started to organise public discussions on liberalisation of policies. Independent newspapers were allowed in 1988, and some public discussions on human rights issues were allowed to take place in 1991. There are some further examples of effective pressure from civil society over the second half of the 1990s, but these tended to be centred around individual issues, such as the breaking up of the National Bank of Commerce. However, these instances show the gradually strengthening voice of civil society on policy reforms. Similarly, participation by civil society during the PRSP consultations marked the beginning of involvement in a wide range of fundamental policy discussions. However, many civil society representatives felt that participation in the PRSP process served more of an 'alibi' function: It could be shown that they were involved, but their contributions were at most tolerated (Naschold et al. 2001).

Donors often have more influence on policy reform issues than does national civil society, e.g. in the discussion surrounding the succession of Finance Ministers during 1994. Similarly, the CFAA argues that the institutional set up is such that government in practice is more accountable to external donors than to its own people (Fozzard and Naschold 2001). Experience to date seems to confirm that Tanzanian analysts tend to 'second-guess' policy recommendations favoured by key IFI personnel, rather than present their own true positions (Bigsten et al. 2001:327). This will only change as government takes increasing ownership of the overall reform agenda.

## 2 Poverty and Poverty Trends

### 2.1 The incidence of poverty

Poverty is widespread in Tanzania. Preliminary results from the 2000 Household Budget Survey indicate an average monthly consumption of around TSh16,000. This would place more than 52% of the population below the basic needs poverty line, and more than 31% below the food poverty line (see Table 3).

Income and consumption are unequally distributed through various dimensions: between poor and rich, between rural and urban areas, between regions, and between men and women. The Gini coefficient is high at over 0.4. The richest 20% of the population received 45.4% of total income, and the poorest quintile only 6.8% (1993 survey), and the adult equivalent expenditure of the richest quintile was 6.24 times that of the poorest. In 1997 per capita incomes in the richest parts of the country were 3.9 times higher than in the poorest (World Bank and GoT 2001). However, even the rich are not wealthy. Their average income of US\$540 is only just above the average income of sub-saharan Africa of US\$520.

Poverty profiles differ widely between urban and rural areas. Poverty is primarily a rural phenomenon (World Bank 1993; Sahn, Dorosh and Younger 1997), with rural households accounting for around 90% of the poor. There are also large intra-rural differences in access to assets with Gini coefficients as high as 0.8 (World Bank 1996, REPOA 1998, URT 1999). Urban poverty is on the increase as a result of rapid urbanisation and stagnant growth in urban areas.

Women are perceived to be poorer than men, although female headed household are not necessarily poorer than male headed households.<sup>2</sup> However, there are real gender inequalities in access to assets, such as property, inheritance and education, where the gender imbalance worsens with increasing levels of education. Poorer households are larger than richer ones (see REPOA 1998). The poverty incidence rises from 32% for dependency ratios of 0-0.25 to 56% for those over 0.75. Only 6% of single households are poor compared to 67% of those with 10 or more members. And the poverty incidence falls sharply the more members of the household are employed. (See World Bank 2001:31).

Non-income dimensions of poverty are also important. The 1991/2 household survey findings show that the poor are less likely to be employed, less well educated and less healthy. 84% of the population were literate in 1997, with a lower rate for women than for men, and with the poor less educated than the rich. Among rural poor 54.3% were literate compared to 61% for the whole of the rural population. Latest primary school gross and net enrolment rates are around 78 and 57%, respectively, with little difference between boys and girls. More than 10% of new-borns die before their first birthday. Again poor household are worse affected (Table 4). Chronic malnutrition is reflected in high stunting and wasting rates (Table 5).

Poverty varies greatly across the regions. Ranked according to income and social indicators, the poorest regions in Tanzania are those that do not produce export crops, which are also those where there is little public expenditure on roads, communications and social services (Lugalla, 1993). The 1995 PPA supports the finding by identifying cash crop production as a characteristic of the richest rural households. Table 2 shows a summary of regional variations in the main income and non-income dimensions of poverty.

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<sup>2</sup> The NBS' (2000) analysis of the 1991/2 Household Budget survey suggests that female headed household are better off, contradicting an earlier result from the World Bank (1996).

**Table 2: PRSP regional variations in poverty in 1999 (selected indicators)**

	Least deprived region	Most deprived region
Per capita GDP in 1997 TSh	37,1811	95,623
Literacy rate	96.4	68.1
GER	100	63
Boys	99	65
Girls	100	60
Life Expectancy	59	45
Men	57	44
Women	62	45
IMR	52	130
U5MR	78	220
Severe malnutrition	2.7	14.7

Source: PRSP.

## 2.2 Poverty trends

### *Income poverty*

The key problem, which has affected all attempts to assess poverty trends in Tanzania, has been the lack of a consistent and comparable definition of poverty over time (World Bank and GoT 2001). Surveys differ in the definition of consumption baskets, population coverage, sample size, and valuation of expenditures. Recent efforts to standardise some of the past data can do no more than given indications of trends (Eele et al. 1999).

The update of the poverty baseline (Owens et al. 2000) and preliminary results from HBS indicate that poverty levels over the 1990s have increased slightly, both in rural and urban areas (see Table 3). The increase is in spite of average annual economic growth of 4.2% over the decade. This means that even growth rates just short of the target rate of 6% p.a. have failed to make an impact on poverty. Poverty elasticities are relatively low as recent growth has been strongest in sectors such as mining and tourism which have a limited impact on poverty reduction (Danielson 2001; Naschold et al. 2001). In contrast, the agriculture sector grew more slowly at an average of 3.6%, and poverty in rural areas, where 80% of population are engaged in agriculture, increased accordingly. This pattern of growth combined with an increase in the poverty headcount would suggest that income inequality has increased.<sup>3</sup>

**Table 3: Incidence of poverty and distribution of income 1991/2 and 2000**

	Headcount (FPL)		Headcount (BNPL)		Income distribution (Gini)		Average consumption (TSh/capit)	
							1991/2	2000
	1991/2	2000	1991/2	2000	1991/2	2000	(1994 prices)	(August 2000)
Dar es Salaam	1.6	6.4	5.4	14.6	0.35	0.42	31,578	35,542
Other urban areas	19.5	25.9	41.1	38.3	0.47	0.38	19,840	21,727
Rural areas	31.8	34.2	56.8	58.0	0.41	0.37	10,651	13,905
<b>Mainland Tanzania</b>	<b>28.3</b>	<b>31.5</b>	<b>51.8</b>	<b>52.8</b>	<b>0.46</b>	<b>0.40</b>	<b>13,388</b>	<b>16,463</b>

Source: Household Budget Survey 1991/2; Household Budget Survey 2000 (preliminary).

<sup>3</sup> This is seemingly refuted by the initial HBS 2000 results, though these preliminary results are subject to change. The preliminary inequality finding in particular has been controversial. Income distribution seems to have become more equitable (except in Dar es Salaam), but this does not match up with increases in overall poverty, during a period of positive economic growth.

The increase in poverty over the 1990s has mainly affected female headed households, for which poverty increased from 50 to 57%. Poverty headcounts for male headed household remained stable at 51%. There is also a pattern in poverty trends according to the main activity of the head of the household. Poverty has increased the most among the self-employed (from 29 to 38%), and among the economically inactive (from 58 to 75%) (HBS 2000 initial results).

### *Non-income poverty*

The Human Development Index measuring literacy, life expectancy and income has improved steadily between 1991 and 1999, but more slowly than other countries. As a consequence Tanzania slipped from rank 127 to 156 on the HDI league table. However, this is still higher than its per capita income rank, which currently is fifth lowest in the world.

Trends of other non-income indicators of poverty are mixed. Infant and Under-five mortality rates began to stagnate by the mid 1980s, before starting to rise again from the late 1980s, first as a lagged effect of deteriorating public service provision. This further supports the importance to maintain public expenditure even in difficult fiscal positions. More recently, child mortality rates continue to increase as a result of the HIV/AIDS effect. *In future this will lead to high indirect costs through orphans and increase in the dependency ratio.* Recent estimates suggest that life expectancy has fallen by 4 years to 48 years since 1990, again as a consequence of the pandemic.

Illiteracy increased among the poorest between 1983 and 1991 (PRSP), and enrolment among poor children fell from 82 to 80% in the same period (HRDS 1993/4), though the proportion of women without education fell from 48 in 1991 to 40 in 1999. Access to safe water declined from 25% (76%) in 1976 to 21% (55%) in 1993 in rural (urban) areas.

**Table 4: Infant Mortality rates by asset quintile (1991 and 1996)**

	IMR	
	1991	1996
First asset quintile	113.7	116.2
Fourth asset quintile	87.7	99.9

Source: DHS data.

The Human Resource Development Survey data shows that child malnutrition increased between 1991 and 1996. There are large variations between asset quintiles, with children from the poorest 20% of households being almost twice as likely to be stunted, or to not survive until their first birthday than children from the richest 20% of households (Sahn, Stifel, and Younger 1999).

**Table 5: % of under fives stunted (1991 and 1996)**

	% of under fives stunted	
	1991	1996
First asset quintile	43	46
Fifth asset quintile	26	8

Source: DHS data.

## 2.3 Determinants of poverty and their policy implications

A number of key factors determine the level of poverty (World Bank 1996) (see also Table 6):

- Low levels of human capital. 67% of poorest quintile are literate, but 86.5% of the richest 20%; additional years of education have significant effect on the level of expenditure, particularly education for women. World Bank (1996:82) estimates that increasing women's education by about one year (i.e. to the level of men's education) is likely to increase adult equivalent household expenditure by 5.8%. If all adults were to finish primary schools, this could lift average expenditures by around 22%. These simulations suggest high returns from public investment in education. Recent declines in enrolment ratios need to be reversed.
- High household dependency ratios.
- Poor infrastructure and market integration. Household consumption falls with increasing distance from a road, and with the quality of the road. This effect is also relatively large compared to consumption. Transport was also identified in the PPA as one of the key constraints to marketing cash crops.
- The combined impact of education, and the impact of infrastructure on poverty reduction. The benefits from access to infrastructure/roads increases with levels of education. A World Bank report concludes that 'improvements in educational attainment and programs of infrastructure improvements are distinctly more effective in impacting household expenditure when done jointly than when implemented separately' (World Bank 1996:60). 61% of households without formal education are poor, compared to only 8% among those with a minimum of 5 years of schooling.
- Low agricultural productivity. Productivity is lower in the poorest households, as they are three times less likely to use a modern input (such as fertiliser, agrochemicals, or higher yielding seeds) than the richest quintile. The poorest households also have least access to savings and credit markets, and have to rely on informal networks and money-lenders.

**Table 6: Characteristics of the Poor (1991)**

	Very poor	Poor	Better-off
<b>Demography</b>			
Average Household Size	6.52	6.65	6.58
Dependency Ratio	1.26	1.23	1.27
<b>Education</b>			
Literacy (people over 14)	52.8	54.5	67.6
% achieving primary school education	58	58.3	65.2
% of children enrolled (age 10-13)	59	60	69
<b>Asset ownership</b>			
Owners land (%)	97.3	96.5	96.4
Owners livestock (%)	55.6	63.2	63.5
<b>Agriculture</b>			
% growing at least one cash crop	17.1	20.3	24.2

Source: 1991/2 Household Budget Survey

If the reduction of poverty is the prime objective, policies should primarily benefit rural areas. Firstly, this is where the large majority of poor live, and secondly growth in rural areas has been found to be four times as effective in reducing poverty than in urban areas.<sup>4</sup> (World Bank 1996)

<sup>4</sup> And even more so when compared to Dar es Salaam.



## 2.4 The evolution of poverty policy and planning

Poverty reduction has been a long-running focus of government policy. However, since the mid 1990s it has gained a new prominence in policy-making, and has prompted a multitude of new development and poverty reduction strategies.

In 1999 two long-term development strategies – the Vision 2025 document for Mainland Tanzania and the Vision 2020 for Zanzibar – set out long term targets on poverty eradication and human development, as well as on good governance and stability.<sup>5</sup> They aim to achieve these targets through sound economic management, democratisation and participation, improving service delivery and accountability in the public sector, decentralising political and financial administration, and promoting governance and the rule of law. By nature, the Vision 2025 is very broad in scope and can only provide broad indicators for expenditure planning at the macro level.<sup>6</sup> The NPES is complementary and attempts to provide a framework for poverty reduction in the medium to long term. It establishes measurable goals for poverty reduction, such as reducing the incidence of extreme poverty by 50% by 2010, and eliminating it by 2025, and other ambitious targets for a set of social indicators. It outlines main actions in priority sectors (education, nutrition and health, water and sanitation, agriculture, employment creation and income generation), but, like the Vision statements, does not contain sufficient analysis of past policy and implementation constraints of poverty reduction efforts. It also lacks a level of poverty analysis that could function as a basis for clear prioritisation of expenditures, and as such fails to identify priority actions for poverty reduction.

The recent draft of the Tanzania Assistance Strategy (TAS) shares its priorities with the Vision/NPES. It was originally conceived as a government-led broad strategic framework to identify government priorities in order to co-ordinate aid more closely with the country's needs. However, in its current draft form the TAS goes beyond being simply a development assistance strategy, and includes some concrete government policies and actions.

The preparation of the TAS was interrupted by the HIPC process, and the need to produce a PRSP to reach completion point. The PRSP is narrower in focus, and shorter term in outlook. It contains more concrete actions than the previous poverty planning documents, but it has still been criticised for showing not enough 'action orientation'. The PRSP identifies three main priorities for poverty reduction: creating higher growth and economic opportunities for all; building human capabilities, survival and social well-being; and increasing empowerment and reducing vulnerability (World Bank 2000a). The PRSP aims to increase and protect funding for poverty reducing programmes in the short to medium term.

The PRSP possesses a number of advantages over the older document.

- It is based on wider consultation than the NPES. PRSP preparation included the participation of a wide range of stakeholders from villagers to MPs, from academics to government officials and NGOs.<sup>7</sup>

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<sup>5</sup> Specifically by 2025: universal primary education and the eradication of illiteracy; access to primary health care and quality reproductive services for all; universal access to safe water; gender quality and empowerment of women; reduction of infant and maternal mortality rates by three quarters of current levels; food self-sufficiency and food security; the elimination of corruption.

<sup>6</sup> The accompanying *Composite Development Goals for the Tanzania Development Vision* provides some further sectoral guidance, but contains few measurable targets, and is not fully compatible with the principles in other government policy statements (for instance, it includes suggestions to raise expenditure in tertiary education).

<sup>7</sup> The wider participation process did not mean that it could not be improved. NGOs in particular criticised the process of consultation (see also Section 7).

- It has a stronger link to resources, including projections of the resource envelope and resource allocations based on MTEF projections (see Fozzard and Naschold 2001, Section 3.3). Although it is too early to assess consistency between PRSP targets and the sectoral targets presented in budget submissions – as the PRSP was finalized after the budget process – one would expect this linkage to be explicit in the FY01/02 submissions (PRSP). The main priorities reflect those in the MTEF.
- It presents clear targets for outcomes to be achieved in by 2010 and 2003 and links these to intermediate monitoring indicators. The PRSP developed a set of core indicators to monitor poverty and aims to link Tanzania's poverty targets with resource allocation.

What the PRSP and HIPC initiatives have done is to increase the sense of urgency and help identify budget activities to achieve core targets. Simultaneously the MTEF and PER process has sharpened the focus on the need to prioritise, and to monitor value for money and effectiveness of public expenditure. However, full costings of the sectoral strategies have yet to be completed, and may yet necessitate downward revisions of outcome targets when the PRSP is reviewed.

One drawback of the multitude of recent poverty and development strategies is that there is no unified ownership of any particular planning instruments. Since poverty reduction is the government's primary medium-term goal, the main guidance on public expenditure priorities should come from a poverty strategy document. The NPES is the Government's stated poverty reduction strategy. However, it has been overshadowed by the recent PRSP process – at least in donors' eyes. The PRSP, on the other hand, is mainly known among senior staff, but not lower down. It is sometimes perceived as driven by MoF and rushed through by the World Bank. To maximise coherence and impact the government, will need to focus resource planning on one poverty strategy.

While the PRSP is the most comprehensive of the poverty strategies, it has gaps in a number of key areas. The PRSP makes no reference to gender issues, beyond indicators for educational gender parity. This is an important, but understandable, omission given the short PRSP consultation process, and the historical lack of gender mainstreaming (Naschold et al. 2001). The previous PFP (1998/99 to 2000/01) for example also failed to include gender issues (World Bank 2000). Similarly there is no reference to youth. Coverage of governance issues is limited to fairly specific actions, such as the IFMS, the anti-corruption plans, and performance management. Important wider political governance issues have been left out of the PRSP document. This also has ramifications for improving service delivery as financial accountability can only be enhanced when political accountability improves simultaneously (Fozzard and Naschold 2001).

Another issue that warrants attention is the institutional set-up for poverty policy and monitoring. Recent changes have recognised the importance of a single central agency co-ordinating government's poverty policies, but the current set-up has not operated satisfactorily (see Section 5).

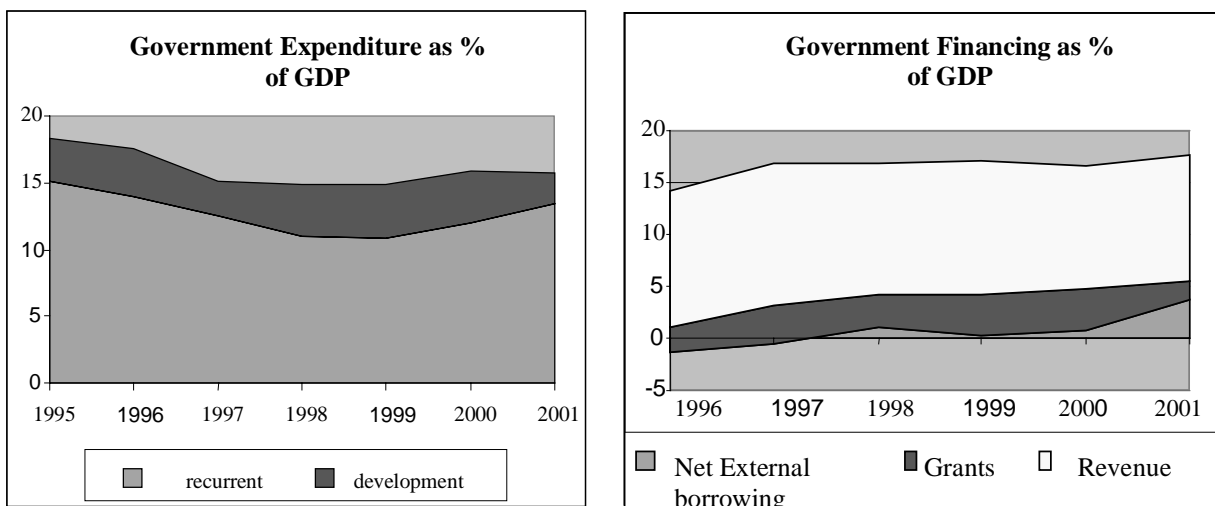
### 3 Public Expenditure and its Impact

#### 3.1 Fiscal Policy

Tanzania's fiscal balance underwent large fluctuations in the early to mid-1990s. The deficit after grants had swung from surplus of 2.3% in 91/92 to deficit of 8.1% in 92/93. Revenues fell by almost 7% of GDP, and inflation remained above 20%. Critical expenditures were squeezed out by an overextended base with large personnel expenditures and other, non-critical expenditures, such as student welfare and government vehicles (World Bank 1994). Rising expenditure claims led to a persistent deficit and a heavy debt service burden. A Presidential 'cost cutting commission' was set up in 1993 to identify potential savings.

Government started to tighten fiscal policy in mid-1995 (see Figure 1) under pressure from the international lenders to a) raise revenue and tighten spending; b) reduce spending in selected areas c) allow private service delivery 'to the extent feasible'; d) restructure so as to increase spending in critical areas: education, agricultural services and infrastructure, and also for the underfunded water sector and primary health care, and e) enforce accountability and adherence to financial rules and budgetary ceilings (World Bank 1996). This followed the same line of argument as the PER 94 which argued that the scope of activities of Government are 'no longer affordable' and are 'increasingly inappropriate given the changing role of the Government in the economy'. The mid-90s cuts in spending affected all sectors including education and health, whereas actual payments on debt service in relation to debt service due rose from US\$137 million in 94/95 or 30% of debt service due, to US\$183 million in 98/99 or 43% of debt service due (IMF and IDA 1999).

**Figure 1: Government expenditure and financing (% of GDP)**



Source: PER 2001, based on Appropriation Accounts FY96-00 and Flash Reports FY01.

However, fiscal performance did not improve. The weak tax administration found it difficult to widen the tax base while dropping rates. Enforcement was insufficient to compensate for the drop in rates. Expenditures increased due in large part to carryover from previous year, especially roads and bridges, overruns from wage payments, clearing of arrears to electricity corporation, delayed retrenchment of civil servants, election spending, and higher than anticipated payments on debt (World Bank 1996). Yet again this led to an increase in the budget deficit and the inability to

provide counterpart funds for even the 125 ‘supercore’ projects<sup>8</sup> (World Bank 1997). To counter this trend a mini budget was presented for the second half of FY96.

Cash budgeting was introduced in 1996 to enforce fiscal discipline by binding government to a balanced domestic budget and limiting growth in the monetary base. This eliminated deficits but at the expense of greatly reduced levels of expenditures and predictability of resource flows. During 1997-98, a drop in revenue caused by droughts and floods, and lower than programmed import support disbursements, meant a shortfall of 12% for recurrent and domestic development expenditures. The fiscal situation deteriorated further by mid-1999, when targets for net domestic financing of end-June and end-September were exceeded by wide margins (IMF and IDA 2000) necessitating further cuts, causing expenditures to hit an all-time low of 13.4% GDP (Danielson 2001).

While the cash budget has been an effective mechanism for restoring fiscal balance, it is very crude and puts a large strain on government’s capacity to implement its programmes (World Bank 2001). The inflexibility of the system means it is not possible to optimise fluctuating revenues with the more even time profile of expenditures. Hence, over the last three years budget surpluses existed alongside under-funding in the priority sectors, which was even more severe than total annual revenues would have necessitated. This obviously affects government’s ability to deliver the poverty reduction activities in the PRSP (See Section 3). The PER process has helped to improve the predictive value of budgets, and has improved coverage of the budget, especially by enhancing the integration of donor financing, and supporting the shift in donor financing towards budget support (World Bank 2001); but unpredictable budget flows due to cash budgeting remain a major problem. Government’s challenge is to gradually relax the tight fiscal controls without compromising gains in terms of fiscal discipline. The government is aiming to graduate from the cash budgeting in the medium term in order to improve predictability for agencies. In the meantime cash smoothing mechanisms, for example through an increase in foreign exchange reserves, potentially financed by donors, could take the peaks out of month-to-month cash fluctuations (Bevan 2001; Fozzard and Naschold 2001).

### *Debt*

Domestic and external public debt has grown quickly over the first half of the 1990s, though total debt has declined slightly since due to the cessation of arrears accumulation and bilateral debt relief. Treasury bill auctions were introduced in 1993 to cover shortfalls in revenues, but they quickly became a major and costly source of finance. Their share in domestic debt exploded from 4.3% in 1992/3 to 30% in 1996/7. Total public domestic debt also grew rapidly during the 1990s standing at US\$1,324.4 million by end March 1999. Owing to shorter maturities, debt servicing consumed between 8 and 15% of annual recurrent expenditure in the period from 1996-99 (World Bank 2001).

External debt stood at US\$6.4 billion in nominal terms in June 1999, including US\$1.2 billion in arrears, or 397% of three-year average of exports. Tanzania has had five Paris Club rescheduling agreements, the last in January 1997 on Naples terms, but even with enhanced HIPC the target of a 150% ratio of debt NPV to exports will not be met, unless there is additional ODA debt forgiveness by Paris Club creditors (IMF and IDA 2000). In any case some commentators argue that debt relief is based on optimistic assumptions in the first place (Danielson 2001). Debt relief funds should go to education, health and water, where they could meet up to 60% of requirements in the priority sectors (World Bank 2000a).

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<sup>8</sup> Out of a total of currently around 1,400 projects.

The lack of a debt management system led to the setting up of the Presidential Debt Task Force in late 1996 in efforts to reconcile debt stock data and set up management system (World Bank 1997). The subsequent National Debt Strategy aims to restore orderly relations with creditors by repaying arrears and preventing increase in outstanding debt, and reducing contractual debt service to about 20% (Danielson 2001).

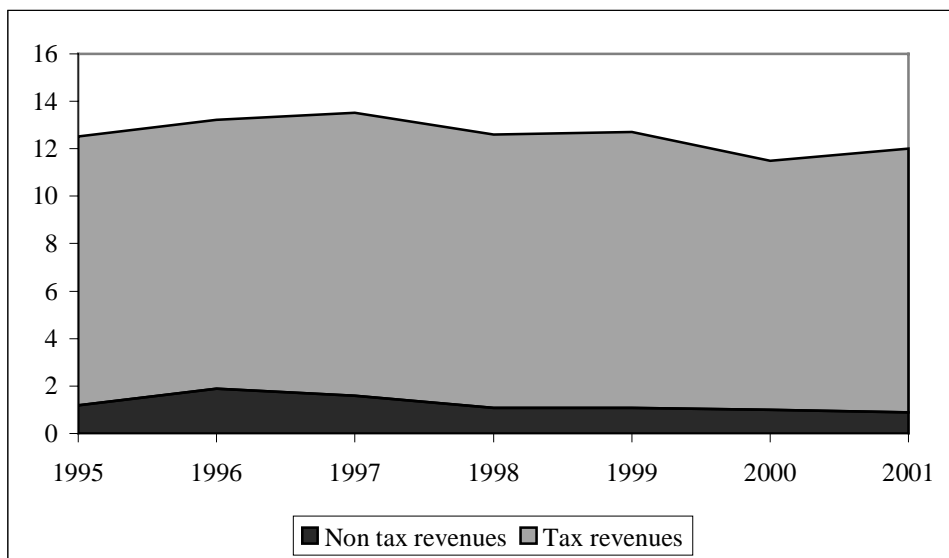
### *Public Enterprise Reform*

Reform of the parastatal sector over the 1990s has made a large impact on fiscal policy. The National Bank of Commerce, for example, had issued bad loans which totalled 4% of GDP in FY94 alone, half of them to parastatals, forcing government into a succession of recapitalisation exercises involving issuing of government bonds. Subsequent restructuring, sale and liquidation of the National Bank of Commerce and other public enterprises has helped to consolidate the fiscal balance. In 1991 a survey of 220 parastatals revealed that only 43 generated sufficient revenues to service their debts. Government subsidies increased from 1% of GDP 1985/86 to 4% in 1992/93. Privatisation was needed to reduce budgetary pressures, increase efficiency, raise growth rates and sustain employment. The Parastatal Sector Reform Commission was established in 1993 and by mid-1998 60% of the original 400 parastatal entities were divested. As a result transfers from the budget dropped from Tsh 20 billion in 1992/93 to Tsh7 billion in 1997/98. The demands of public enterprises on the budget is expected to continued to decrease, as the mandate of the Parastatal Sector Reform Commission has been extended to 2004, with a priority on the restructuring of utilities (IMF 2000:17).

## 3.2 Revenue and revenue incidence

The volume of revenue collected has been unsteady in the recent past, largely due to fluctuations in tax revenue collected. After the collapse in 1993 it recovered over the following three years, only to fall again in 1998 and 1999. Revenue collection efforts in 2000 point towards an increase again (see Mokoro and OPM 2001). On average tax revenue over the last five years was well below the African average of 15% (World Bank and GoT 2001; Danielson 2000). The medium term aim is to raise revenue collection gradually from 11.5% of GDP in FY98/99 to 12.2% in FY02/03.

**Figure 2: Total Government Revenue (% of GDP)**



Source: PER 2001, based on Appropriation Accounts FY96-00 and Flash Reports FY01.

The structure of revenue collection has remained fairly stable (see Table 7), especially when compared to large swings in the past.<sup>9</sup> The main notable recent change has been increases in corporate tax collection, which in 1997/98 represented 43% of all direct taxation, compared to just 13.7% in 91/92 (Temu and Due 2000).

**Table 7: Structure of Revenue (% of total)**

<b>component</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
Tax revenues	90.4	85.0	87.5	91.3	92.1	90.5	92.5
Taxes on imports and exports	27.2	27.1	27.9	29.4	32.5	30.2	41.7
Sales and excise taxes on local goods	21.6	21.1	22.8	23.0	26.2	23.3	20.0
Income Taxes	26.4	23.3	22.1	23.8	22.2	26.7	21.7
Other taxes	15.2	14.3	15.4	15.1	10.3	11.2	9.2
Non tax revenues	9.6	14.3	11.8	8.7	8.7	8.6	World
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0

*Source:* PER 2001, based on Appropriation Accounts FY96-FY00 and Flash Reports FY01

The main revenue policy agenda has been the simplification of tax structure in order to ease the burden on the tax administration and to reduce distortions for the economy (Mokoro and OPM 2001). The revenue system has been rationalised by reducing the number of tariff rates to 4, by cutting the number of income tax classes from 11 to 5, and through the introduction of VAT in July 1998.

The basic principle underlying revenue reform has been to support growth in the formal economy and so to increase revenues. However, the capacity of the tax administration is weak, and it did not manage to successfully broaden the tax base as intended, largely by allowing large exemptions for investment promotion and tax evasion to continue. Major leakages were due to transit trade; underinvoicing of imports, and smuggling from Zanzibar (Danielson 1997). Import revenue losses, due to exemptions and evasions, between January and September 1994 alone, were equivalent to 4% of GDP (World Bank 1996). The severity of exemptions prompted the Nordic countries to suspend their aid payment and the IMF to cancel its adjustment lending programme. Danielson (2001:5) argues that 'tax evasion and rampant corruption prevent the tax ratio from increasing consistently'. In addition to these large leakages, the tax base is also narrow geographically, with Dar-es-Salaam contributing 75% of total revenue, the top five regions (Dar, Arusha, Kilimanjaro, Tanga and Mwanza) 93%; and the remaining 15 regions just 7% (Temu and Due 2000).

The key issue in a tax system is that it should foster productivity. Tax is generally not seen as an efficient mechanism for redistribution (Morrissey 1995, Mokoro and OPM 2001). Instead, a simple tax system should collect the revenue. Expenditures can then make pro-poor interventions. Following this line of argument the government is not developing a pro-poor revenue strategy beyond specific measures in VAT and personal income tax thresholds. In practice, and perhaps unintentionally, the strong urban bias of tax collection means that the rural poor at least tend to be less taxed. Structural weaknesses in local revenues have prevented increases in rural and local taxation. The one instance at which the poor were in fact taxed more heavily was, indirectly, when at the height of the revenue shortfall Government was using regressive inflation taxation to cover losses.

In future revenue collection will continue to fall short of providing adequate resources to fully fund priority expenditures. However, assuming that modest increases in the average tax rate are achieved

<sup>9</sup> The share of import taxes increased from less than 10% in the early 80s to 41.1% in 1990/91 before dropping again (Levin 2001).

and future growth of around 5% will materialise, then revenue may be enough to cover key expenditures under the PRSP (Mokoro and OPM 2001).

### 3.3 Resource allocations

Since the mid 1990s the government has been redefining the role of the state in the economy, based on the assumption that reducing the number of activities and concentrating resources in key areas will help to increase productivity and quality of public spending, and ultimately have a larger impact on poverty reduction. The Government has been allocating an increasing share of resources to the priority sectors identified in its poverty reduction policy documents, namely health, education, water, agriculture and rural infrastructure. This trend is likely to accelerate over the medium term (see section 5), but first started in 1996. Recurrent budget allocations to the social services increased from 3.5% of GDP in 1996 to 4% in 2000, with the biggest increases in health and finance for local government. The social sectors received increased allocations even as overall fiscal policy was tightened. The shares for defence and security fell over the same period (see Table 8).

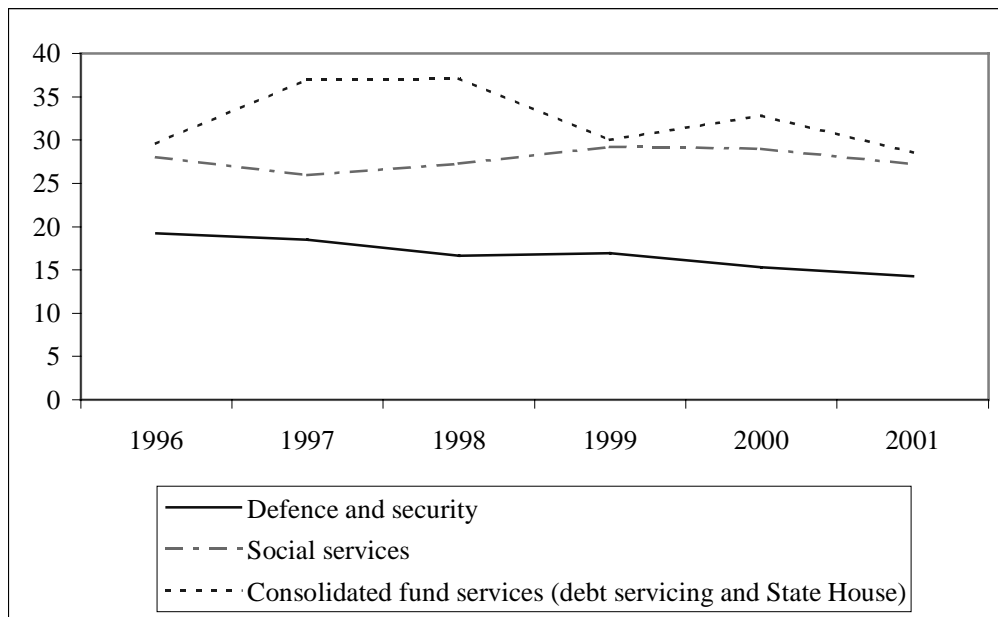
The Government has largely been able to protect recurrent expenditures in priority sectors due to an increase in grants and government's commitment to its priorities. Around 25% of total recurrent expenditure has been allocated to education over the six years up to FY99/00 (OPM 2001). Real per capita spending on education and health went up by 29% and 57%, respectively between 1986 and 1996 (Therkildsen 2001), but the absolute level continues to be very low. Just to achieve quality UPE and basic health care requires an additional US\$500 million annually, which is equivalent to 50% of expenditure and 18% GDP (World Bank 1994).

**Table 8: Sectoral Composition of recurrent expenditure (% of GDP)**

% of GDP	1996	1997	1998	1999	2000	2001
Defence and security	2.4	2.5	2.2	2.2	2	2.1
Social services	3.5	3.5	3.6	3.8	3.8	4
Education	0.3	0.3	0.4	0.3	0.3	0.3
Water	0	0	0	0.1	0.1	0.1
Health	0.3	0.4	0.5	0.6	0.5	0.5
Science, Technology and Higher education	0.5	0.5	0.4	0.5	0.5	0.5
Regions	2.3	2.3	2.3	2.1	2.5	2.5
Consolidated fund services (debt servicing and State House)	3.7	5	4.9	3.9	4.3	4.2
total recurrent expenditures	12.5	13.5	13.2	13	13.1	14.7

*Source:* PER 2001, based on Appropriation Accounts FY96-00 and Flash Reports FY01.

With the FY00 budget guidelines, government extended the priority sectors to include judiciary, food security and land issues. This sparked warnings to take care not to define priorities too broadly, which would ultimately defeat the original purpose of prioritisation (World Bank and GoT 1999).

**Figure 3: Composition of recurrent expenditure**

Source: PER 2001, based on Appropriation Accounts FY96-00 and Flash Reports FY01.

Total domestic investment increased as a percentage of GDP from 0.5% in 1996 to 1.8% in 2000. The level of budgeted public investment, however, is low. It is much lower still when looking at actual rather than planned investment. As a consequence, external assistance accounts for the majority of development expenditure.

When examining resource allocation patterns it is important to keep in mind that the budget gives only a relatively approximate picture of the allocation of disbursements. Predictability of resource flows remains one of the largest public expenditure management problems. In FY98, 25 ministries and departments received more than was budgeted – with education and health getting considerably more – and 15 MDAs, including the Prime Minister’s Office, Defence, Communications and Transport, got less than their recurrent budget allocation. Many sectoral ministries are concerned that ‘the budget has become a purely academic exercise. And that the credibility of the central government as well as its capacity for service delivery has been severely affected by the unpredictability of monthly releases’ (World Bank and GoT 1999:22).

In reaction to the cash budget constraints ministries set up committees to allocate actually available funds during the budget year. Their decision can result in substantial reallocations, particularly for OC (see Section 5). Within-year reallocations also occur as a result of the political process at cabinet level combined with agencies’ particularistic strategies. Ministers enjoy considerable autonomy and in the past basic rules were sometimes not enforced so as to avoid losing cabinet members to the opposition (World Bank 1997:65-66). In addition, Ministers’ power allows them to implement particular programmes, even if they don’t correspond to the budget. As some officials put it: ‘Who in the Ministry is going to refuse the Minister!’

Under the decentralisation process, local government is taking on increasing responsibility for the delivery of essential public services. For this purpose a growing proportion of funds is channelled directly to districts rather than through regional administrations. In terms of the sectoral composition of expenditures, in FY99 79% of district funds were for primary education, 13% for health, 2% for water, 1% for roads and 2% for administration. However, reallocation between sectors is even more likely to take place at district level than at national level (see REPOA and



ESRF 2001, and Section 5). Rural districts get 80% of total funds; urban councils receive the remaining 20%. 95% of local authorities' allocations are for salaries, with the only significant non-salary components in the water and roads sector. There are also significant regional variations, which tend to persist, not because of redistribution policy, but due to pre-existing distribution of services. This imbalance is exacerbated by direct donor contributions, which on average favour districts which are relatively well off (World Bank and GoT 1999).

### 3.4 Forward projections and the PRSP

#### Revenue

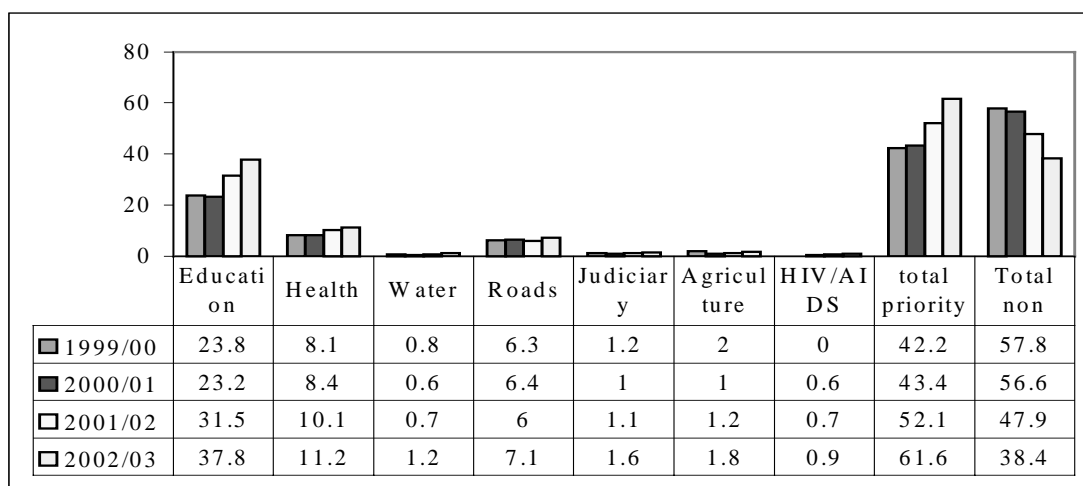
Long-term revenue projections assume an economic growth rate of 6%. While in principle Tanzania could attain such rates, this target growth seem to have been determined backwards from the stated long-term poverty goals in the NPES and the PRSP. The MTEF projects revenues to increase from 11.7% of GDP in 2000/01 to 11.9% in 2003/04. Domestic revenue growth is unlikely to be faster as no major tax reforms are planned, and any additional revenue relies mainly on reduced exemptions and increased administrative efficiency (Bevan 2001). *The rising share of mining and manufacturing in GDP should be easier to tax, but mining enjoys generous tax holidays that will blunt the effect.*

The current MTEF assumes that the average level of international support will be maintained at a slightly higher level than previous years, so that it will finance around 30% of total government expenditure. (GOT 2000). The assumption of greater donor assistance is supported by a donor survey of planned programmed flows, which reveals that medium term flows of aid are likely to be significantly higher than those projected in the Budget Guidelines (Bevan 2001), and will increasingly take the form of programme aid.

#### Expenditure

In the current MTEF, the government aims to concentrate expenditures in its priority sectors (GOT 2000; TAS) (see Figure 5). Together these sectors' share in total recurrent expenditure is projected to increase from 42.2% in 1999/00 to 61.6% in 2002/03, with the largest increases in education and health.

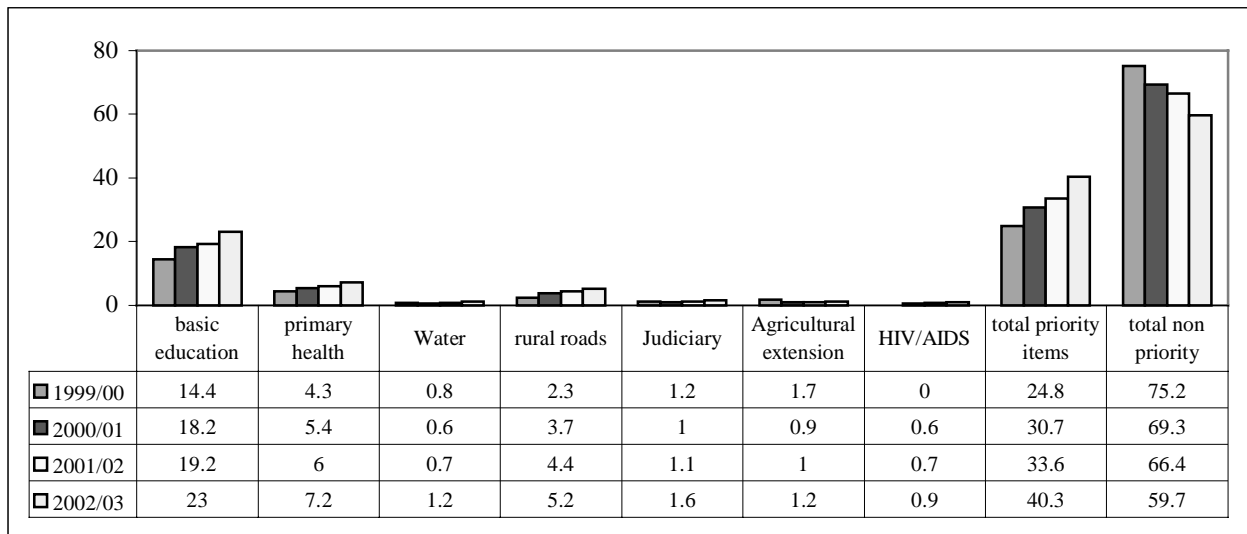
**Figure 4: Medium term expenditure in priority sectors 1999/00 to 2002/03 (% of total recurrent expenditure)**



Source: PER 2001, based on Appropriation Accounts FY96-00 and Flash Reports FY01.

The increase is even greater when examining the planned allocations for priority items within priority sectors, namely primary education and health, agricultural research and extension, rural roads, water, the judiciary, and HIV/AIDS. These items are projected to increase their share in total recurrent spending from 24.8% in 1999/0 to 40.3% at the end of the current MTEF period in 2002/03 (see Figure 5). Reallocation towards priority items within the priority sectors are particularly significant in roads, where the share of rural roads in total roads' recurrent expenditure rises from around one third to almost three quarters, and in health where the share of primary health in the sector goes up from roughly half to two thirds (comparing figures in tables in Figure 4 and Figure 5).

**Figure 5: Medium term expenditure on priority items 1999/00 to 2002/03 (% of total recurrent expenditure)**



Source: PER 2001, based on Appropriation Accounts FY96-00 and Flash Reports FY01.

The Government's commitment to poverty reducing expenditures is further underlined by its plans to increase the allocations for Other Charges (OC) and development expenditures in priority sectors.<sup>10</sup> In 2000/01 priority sectors are budgeted to receive 84% of the recurrent OC and development expenditure required in their Sector Programmes, rising to 89% at the end of the current MTEF<sup>11</sup> (see Table 9). Allocations are still lower than requirements, but are increasing as a share of total allocation to priority sectors, and as a proportion of total discretionary recurrent expenditure for priority sectors.

<sup>10</sup> Increases in OC and development expenditure to priority sectors are particularly significant as these are resources that a government not committed to poverty reduction could use for other purposes. Expenditure on salaries in all sectors is a constant in the medium term. It is only the residual, i.e. OC and development budget, that can be reallocated immediately to priorities. Obviously, public sector reforms need to be tackled to allow long term trade offs between personnel and other charges. (For a discussion on the importance of integrating recurrent and development budget, see Fozzard and Naschold, 2001).

<sup>11</sup> Financing requirements were calculated based on the recurrent cost implications of the sector strategies using estimates of unit costs from the sector PERs. The financing estimates were used in developing the MTEF (which assumes that resources are used efficiently).

**Table 9: Comparison of Funds required and proposed allocations for OC and Development Expenditure in Priority Sectors**

	Budget as % of requirement			
	1999/00*	2000/01	2001/02	2002/03
Education	37	79	68	81
Health	52	77	79	91
Water	55	85	78	83
Judiciary	50	80	95	122
Agriculture	40	85	87	93
Roads	100	100	100	100
<b>Total</b>	<b>54</b>	<b>84</b>	<b>81</b>	<b>89</b>

\* likely outturn as % of requirement

Source: Budget Guidelines 2000/01-2002/03, Budget Estimates 2000 Vol II and IV.

All sector strategies for the PRSP (except for agriculture) have been costed. Costing has also been done for cross-cutting areas such as HIV/AIDS and employment (PRSP progress report).

Although total available resources are projected to increase substantially *to 17-18% of GDP between 2000/01 and 2002/03* and expenditures are increasingly allocated to priority sectors and items, a financing gap will remain for the implementation of the PRSP targets. The PER and MTEF exercises tried to define 'basic units of service' and estimate their costs. In health, for example, a minimum standard of health care would cost around US\$9 per capita, which would require a doubling of current budget. Similarly the education PER forecasts that assuming current unit cost and demographic trends (including the impact of HIV/AIDS) available resources projected through the MTEF will fall short of resource requirements by between 5 and 20% in the coming three years<sup>12</sup> (OPM 2001). Obviously even the increased level of resources in the MTEF will fall below acceptable standards in the short-term, and hence mean that many of the medium PRSP targets are unlikely to be met (Naschold et al. 2001). Options are to raise efficiency or lower standards of service delivery, revise downward the PRSP targets; raise additional external resources; or resort to higher domestic borrowing (Bevan 2001). Neither the PRSP nor the MTEF identify how the resource gap can be closed or, alternatively, standards are lowered in the medium-term.

To make an impact on poverty reduction, budget allocations have to be translated into disbursement. The much lower figure for 1999/00 in Table 9 (54%) compares likely outturns to requirements. Cash budget constraints have affected even the priority ministries, particularly their development budget, but also OC. The increasing proportions of funding in Table 9 are probably optimistic, and should be closely monitored against outturns. To measure the impact of public expenditure on poverty reduction, it is particularly important to compare budgets and actuals for basic education, basic health, rural water supply, rural roads, and agricultural research and extension. These areas fall under the responsibility of local authorities, for which we have been unable to obtain outturn data. Such data only exists in the annual accounts, which the local authorities submit to MRALG. As these accounts are currently not aggregated, overall outturn data are not available. It is therefore difficult to assess to what extent this substantial component of government spending has become more poverty oriented.

### 3.5 The impact of public spending on the poor

As in the other country case studies under this research project, available data on service delivery tends to focus on overall coverage, and less on specific access by the poor. However, as the poor

<sup>12</sup> Calculations based on OPM (2001:89 table)

tend to have the least access to publicly provided services, changes in coverage and quality are likely to benefit the poor disproportionately.

The lack of comparable household data over time makes it difficult to assess the effect of government policy and spending on particular income groups. Aggregate data on all the main indicators are available from administrative sources, but only the release of the latest household survey data will allow an analysis of how different income groups have fared over time, and by extension how government spending on services has contributed to these changes.

Overall there is evidence of a decline in service delivery levels in the 1990s (Therkildsen 2000), caused by low levels of spending and compounded by inequitable distribution and inefficient delivery (World Bank 2000). Improvements from current reform efforts are only likely to make an impact in future, as public sector reforms started relatively recently, and are only just addressing the collapse of service delivery (IMF and IDA 1999). The last major benefit incidence analyses were carried out in the early 1990s and suggested that the non-poor are benefiting disproportionately from government expenditures. The bottom 20% of income earners receive the benefits of 14.5% of expenditure, while the top 20% are subsidised with twice that share (28.6%). The most equitable expenditure items are primary education, health care centres and dispensaries; the least equitably distributed are university education, hospitals and water (World Bank 1996).

The remainder of this section tries to examine trends in availability and coverage of public services by sector. It mainly draws on information generated by PERs and relevant tracking studies. Expenditure tracking became part of the annual PER process in 1999, followed by the tracking study of the Road Fund in 2000, and a study in the education and health sector for the 2001 PER. All of these find significant divergences between budget and allocated funds, primarily through diversions of funds to 'other charges' and under-spending on development expenditure (Tsikata and Mbilinyi 2001). Funds and materials for pro-poor purposes pass through three levels of government before reaching the beneficiary: central government, district council headquarters and service unit. Delays and leakages can occur at or between any level (see REPOA and ESRF 2001). A joint World Bank and IMF assessment of public expenditure management in Tanzania concluded that the system was not sufficient to adequately track expenditures.

### *Education*

After positive trends in previous decades, performance in the 1990s was disappointing. Gross enrolment reached a peak under the UPE initiative at 95% in 1982, but rates have fallen ever since: the GER to around 75%, and NER to around 56%. The growing cost of education combined with poor quality and oppressive conditions has pushed up drop-out rates, and caused children to move into the labour market (Tsikata and Mbilinyi 2001:4). A recent labour survey shows that more than a quarter of boys and girls work (ILO 2001).<sup>13</sup> Drop-outs have increased, too, after UPE, particularly in mining and urban areas (i.e. areas where the opportunity cost of attending school is higher). Illiteracy has increased from 10% to 16% of the population between 1986 and 1992, and is estimated to have doubled again to 30%. This was a consequence of drops in attendance at literacy classes by 40% between 1997 and 1999, and low primary school enrolment and high drop-outs (Naschold et al. 2001). Overall, the quality of education may be suffering. PTRs have risen slightly, and a smaller percentage of students pass the primary leaving exams (OPM 2001).

The most recent available data, however, suggests that there may be a very slight improvement in main enrolment indicators, and the drop out rate seems to fall. Enrolment has increased

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<sup>13</sup> ILO (2001) 'Time bound programme on the worst forms of child labour in Tanzania: Summary of preliminary results, labour force survey-child component (Quarter 1), Dar es Salaam:IPEC.

significantly in 2001, as education managers have been instructed to register all children of primary school age, and as government is planning to abolish school fees at the primary level. A sample of 9 rural and 1 urban district shows that enrolment rates in 2001 are 11% higher than in the previous year. Only the forthcoming household survey will show whether these trends apply to the poor as well as to the rest of the population (OPM 2001).

The latest available benefit incidence analysis (World Bank 1996) found that only 14.5% of total education expenditure reached the poorest 20%, whereas the richest 20% received 28.6%. Subsidies for primary education were fairly equally distributed with approximately twenty% going to each quintile. The poorest have the most children, but the larger numbers of children is balanced by lower enrolment ratio among the poor. So the aim must be to increase poor children's enrolment. In secondary and tertiary education the richest quintile receives 60.7% and 100% of the subsidy. There are no surveys measuring the satisfaction of parents, but indications are that the perceived value of schooling is low, with parents feeling that even for the small school fees they pay they get little in return (Eele et al. 1999). The unsatisfactory education performance over the 1990s is partly explained by the poor record of resources reaching their intended purpose.

Overall availability of supplies at the service units is poor, and there are large inequalities between regions, with e.g. one maths book per three pupils in some areas, but only one for 28 in Serengeti, and variations between schools within one council (Galabawa 2000). In addition, there are no clear plans for delivery of supplies, which opens possibilities for further leakage. Users' views on availability suggest that education supplies are inadequate – with only 1-2 exercise books per pupil per year – and ad hoc. Unpredictable timing of deliveries of materials prevents councils from planning.

### *Health*

Poor health is recognised in the PRSP and other key government documents as one of the prime causes of poverty. While other government interventions in areas such as education and water and sanitation are also important in improving the health of the poor, improvements in health services are a main priority for the government.

Virtually all illness and deaths in Tanzania are attributable to preventable diseases. Trends in morbidity are hard to assess as few epidemiological data exists (Tanzania Social Sector Review, World Bank, 1999). However, it is generally thought that significant gains were made during the period of health sector expansion throughout the 1970s and for the first part of the 1980s. Most of the growth in this period was in the rural sector and objectives stressed the strengthening of preventative health services and primary health facilities in rural areas. By the 1990s financial constraints had led to the decline in quality of the health services and in people's ability to access them. Deteriorating health services, increasing poverty and the onset of HIV/AIDS all lead to the conclusion that morbidity has increased from the early 1990s (Naschold et al. 2001).

Lack of information over time makes it difficult to get more than a static picture of the use of health services. The 1993/4 Human Resource Survey revealed that the poorest 20% of households depend twice as much on government health centres and dispensaries as the richest 20%, although richer households were more likely to make use of in-patient facilities, and consume a greater share of health services than the poor (Health Sector PER 2001). A benefit incidence analysis conducted by the World Bank found that the lowest two quintiles, receive 18% and 20% of the subsidy respectively, while top two quintiles receive 38% of the subsidy (see Table 10). Expenditure on health centres and dispensaries is best targeted with 45% of spending going to the bottom 40% of the population, but the poorest 40% only receive 25% of hospital subsidies, compared to the top 20% receiving 32%. In addition, there are wide gaps between rural and urban areas. For instance,

clinics which tend to be in rural areas receive only one third of the unit subsidy of predominantly urban hospitals. There are also wide differences in the type of facilities used, with urban areas relying more on hospitals (World Bank 1996:47.) Health expenditures are more equitably distributed than those in education. This is supported by evidence from user surveys conducted as part of the 2001 PER process (REPOA and ESRF 2001:24) which suggest that the availability of drugs tends to be satisfactory, with most drugs being available at most times (except near the expected date of the next delivery).

**Table 10: Distribution of health expenditures by income quintile**

	First	Second	Third	Fourth and fifth
Share of health expenditure	18	20	24	38

The absence of data over time makes it difficult to assess the impact of the more recent health sector reform and resulting changes in expenditures on quality and availability of health services, particularly for the poor, as there is no information that shows a breakdown of access to and use of services by income group (see e.g. Health Sector PER 2001:39). In any event many of the reforms and resource reallocations are very recent, and are unlikely to have already affected the availability and usage of health services, let alone led to improvements in the health status of the poor.

### *Water*

Demand for water continues to exceed supply, both in urban and in rural, particularly semi-arid, areas. More than half the population use an unprotected water source (HBS 1991/2). The current system of public expenditure management in the water sector is inefficient and has had little impact in raising access and quality. Rural access to water has improved between 1998/9 and 2000/01 from 48 to 50% (Ministry of Finance 2001), but between 30 and 40% of all water schemes in rural areas are not functioning, and the differential to urban areas is large. Piped water is available to 68% of urban households, although less than half of them have 24 hour access. The average distance to the preferred water source varies from 250 metres in Dar es Salaam to, 1.1km in other towns, and 1.6km in rural areas. Sanitation is poor without access to clean water. The poorest suffer much more from water-borne diseases than higher income earners.

Financing for the sector has been very variable, partly due to cuts under cash budgeting, partly as the sector is heavily dependent on donor finance. The ratio of aid to total water sector expenditure has been between 85 and 93% during the last three fiscal years (Ministry of Finance 2001). However, only between 40 and 50% was actually disbursed during the year. Of the funds that are disbursed, the poorest 20% receive 10%, while the richest get 41%. Urban areas receive almost five times more than rural areas (see Table 11). A poor rural citizen receives only 13% of the water subsidy of a rich urban resident. These differences are mainly due to difficulties of access. Only 2% of lowest quintile receive any subsidy while 63% in highest quintile receive. Urban unit subsidy five times higher than rural unit subsidy. Overall the distribution is more equitable in rural areas.

**Table 11: Incidence of water subsidies by quintile (per capita subsidy TSh)**

	Poorest	Second	Third	Fourth	Richest	Total
All Tanzania	647	703	961	1379	2565	1251
Rural	533	478	601	825	931	641
Urban	1817	1725	1964	2443	4089	2829

Source: World Bank (1996)

Preliminary results from the 2000 Household Budget Survey suggest that there may have been some improvement in access to clean water. For mainland Tanzania the proportion of the population using unprotected water sources fell from 55% in 1991/2 to 48% in 2000, with most of that fall occurring in rural areas (down from 65 to 48%).

### *Rural roads*

The overall state of the roads system is poor. Only 13% of the network is in good condition (World Bank 2000a). Poverty related roads data is very scant, which makes it extremely difficult to assess actual achievements to date (see Roads Sector PER 2000/01). There is no static information – let alone information on trends – on poverty-related rural infrastructure indicators such as average distance to tarred roads, average distance to all season feeder roads, average distance to taxi/bus services, or the effect on market access and competition for produce. The only information available is general and tends to suggest that little progress has been made, and that the PRSP target of rehabilitating 4500km of rural roads in the twelve poorest regions is unlikely to be reached by 2003. The geographic allocation of rural road expenditure may become more poverty focused as new spending is distributed according to a regional poverty ranking.

## 4 The Institutional Framework

### 4.1 Civil service reform

In the early 1990s the Tanzanian public sector was in crisis. Public sector employment had grown faster than the population as a whole throughout the 1970s and 1980s, with the number of civil servants peaking at 355,000 in 1993/94, equivalent to over 70 civil servants per thousand habitants. Public spending on civil service pay did not keep pace and as a result real wages fell. By the mid-1980s the monthly wage of public service employees – including nurses, teachers and policemen – could meet no more than a week's basic requirements. In the early 1990s, the salaries of 75% of the civil servants fell below the poverty line. Civil servants turned to informal business as a source of income (Tripp 1997). Others supplemented their meagre salaries by demanding payment for services or selling medicines or textbooks that were supposed to be free. There was a 'disintegration of public interest attitude and practice' (Doriye 1992: 110).

Low levels of pay made it difficult to recruit and retain qualified staff. Allowances were introduced to cushion senior staff from the impact of declining real wages, leading to a remuneration structure that was non-transparent, inequitable and unmanageable, with a significant part of public sector pay drawn from budget lines that were ostensibly intended for operations and maintenance (Word Bank, 1994). Public services were further undermined by the crowding out of operations and maintenance expenditures by a rising wage bill and debt service requirements.

For the World Bank, the root cause of poor public service was clear: the public sector was overextended, and the civil service was too large in relation to the resources available, a diagnosis that was common to many other African countries at the time. A Civil Service Reform Programme was launched in 1994 with the goal of ensuring 'a smaller, well compensated, efficient and effective civil service', starting with the retrenchment of civil servants. Over the next five years, staffing levels were reduced by nearly one quarter, a net-reduction in 85,000 posts of which about 20,000 were ghost workers. Controls on recruitment were tightened, with a freezing of recruitment in non-priority sectors, a ban on the recruitment of non-professional or technical staff and automatic replacement of staff lost through natural wastage and the establishment of a computerised payroll system.

**Table 12: The size of the public sector 1988/9 – 1998/9**

No of public employees							
	1988/89	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
Education	101,042	126,410					
Health	32,650	37,705					
Other	165,446	190,497					
Total	299,138	354,612	315,963	287,038	285,624	270,629	269,329
Change			-38,649	-28,925	-1,414	-14,995	-1,300
Cummulative from 93/94			-38,649	-67,574	-68,988	-83,983	-85,283

Source: IMF (1999: 19) and IMF and IDA (1999:12)

After the first round of retrenchment, Organisation and Efficiency (O&E) Reviews were carried out in central ministries and departments during 1996 to identify further savings. The results were disappointing. In the absence of a medium-term budget framework, there was no incentive for agencies to identify significant savings on personnel, or means of assessing the tradeoffs between alternative uses of applications of funds. A few agencies, notably the Ministries of Agriculture and Natural Resources, reassessed core functions and restructured their operations, but most sought



savings within the existing functions and institutional structures. Consequently, a modest retrenchment programme of only 7,000 posts was identified and this has been implemented slowly, with only 4,000 retrenched in 1998/99 (IMF and IDA 1999).

Retrenchments have not had a budgetary impact because the reduced number of posts was more than offset by pay rises; indeed the wage bill increased from an average 17% recurrent expenditure in FY86-92 to 38% in FY97. From 1992 to 1997, minimum pay increased by 75%, with 250% increases for higher-level civil servants, the structure of pay was rationalised and around half of the thirty six allowances were rolled into base salaries. As a result, there was significant decompression, with ratios rising from 1:6.6 to 1:16. Nevertheless, public sector pay remained considerably lower than the rates offered by the private and NGO sectors and the changing structure of pay left lower and middle management behind, with little differentiation between them and the administrative and technical grades. In addition the O&E Reviews did not cover the 60% of civil servants who are employed in local government. The reviews also suffered from the lack of a clear budget framework. They have not always critically assessed core functions, but instead tended to look at staffing issues (World Bank and GoT 1998).

To address these concerns, the Government adopted a medium-term pay policy in January 1999 which aims to bring civil service pay in line with the private sector over a five-year period. In the first year, the Government budgeted an 18% wage rise, but in FY00 there was no real increase in salaries owing to constraints on public expenditure and now there is little prospect of achieving the policies objective by FY02. As the pay reform slipped, the Government proposed a narrower salary supplement scheme which would be financed by donors. However, the scheme covers only 3,000 senior posts (about 1.2% of the workforce) and will therefore have little impact outside a small elite.

Revisions in the schemes of service, through a process of job evaluation undertaken in 1998-99, may provide relief for some critical areas – raising the entry point for accountants, for instance, by four grades so that their starting salary is USUS\$110 per month instead of USUS\$80, while the salary of a principal accountant will increase to USUS\$375 – but in much of the civil service the problems of low and uncompetitive pay persist, together with the consequences in terms of poor motivation, difficulties in the retention of staff and the erosion of professional standards. This is aggravated further by pay rises at lower levels often being politically motivated.<sup>14</sup>

## 4.2 Public sector reform

The medium-term pay policy is part of a broader reform package laid out in the Public Sector Management and Employment Policies and the Public Sector Reform Programme launched in 1998, led by the Civil Service Department (CSD 1998; CSD 1999). These reforms are much more ambitious than the earlier civil service reform, which was primarily a cost-reduction exercise, seeking to transform the public sector into a dynamic, client and performance-oriented meritocracy. Key measures include:

- **Focusing on core functions**, such as policy making, regulatory and monitoring functions, and rightsizing the public sector by terminating or contracting out non-core functions. Following on from the Organisational and Efficiency Reviews undertaken in 1996, the programme envisages functional reviews of the central institutions, leading to the definition of agency mission statements and strategic plans which focus on core functions taking into account future resource availability. The strategy underlines the importance of incentives for

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<sup>14</sup> Pay rises for teachers are thought to be more generous due to their close association with the CCM.

agencies to restructure their operations and suggests that they will be allowed to retain a significant proportion of the efficiency savings realised as an incentive for reform.

- **Adopting appropriate institutional structures for service delivery**, through the creation of Executive Agencies and service boards and the decentralisation of responsibility for service delivery. The 1997 Executive Agencies Act provides for autonomous agencies, managed by Chief Executives and reporting to Advisory Boards, appointed by the supervising Minister. Nine executive agencies have already been created – including the revenue authority, the civil aviation authority and the statistics bureau. A further eight will be established by the end of 2001 and a total of 37 agencies will be launched in the medium-term. In the education, health, water and roads sectors, the intention is to establish supervisory boards, including representatives of service users, to oversee public sector service delivery. As yet the institutional framework for the boards remains unclear, though they are likely to be based at district level and possibly at the service delivery unit and hold statutory authority over personnel and service management. The World Bank (2000) also cautioned that the agency model is being pushed hard without assessing the impact of the early experiences, and that performance contracts are often broken when they conflict with political priorities.
- **Promoting private sector participation**, by the contracting out of services and the promotion of private sector provision of services. The private sector is already a major player in the delivery of some services, providing the majority of secondary school places and some health services. Limited contracting out of some support services has also begun.
- **Rolling out the performance management systems throughout the public sector**, supported by appropriate institutional and personnel incentives. These systems will include: a rolling National Strategic Plan with targets for strategic results areas, which may include outcomes to which several institutions may contribute; strategic plans and Annual Service Improvements Plans for each agency, which define outputs, activities and performance targets; Performance Budgeting, which will channel resources towards outputs rather than inputs; and Annual Performance Agreements for executives. Eight agencies, including the MoF, are piloting strategic planning; a further two agencies will be included during 2001.
- **Decentralising responsibility for human resource management**, so that the ‘common cadre’ – by which, for example, all accountants report to the Accountant General irrespective of their placement – will be abolished. Agencies will, eventually, be able to formulate their pay strategies and will receive a global resource allocation so that can allocate resources across all categories of inputs as necessary.
- **Making agencies responsive to clients**, by consulting with stakeholders and publishing ‘Client Service Charters’ setting out the standards of service which the public should expect. First drafts of these Charters have already been prepared for several Ministries, including the MoF.

The public sector reform agenda is clearly based on the New Public Management agenda, drawing inspiration from experiences in the United Kingdom and New Zealand (Banock Consulting, 2000; Therkildsen, 2000). One of the features of the reform agenda is the close linkage between institutional reforms and reforms in public sector expenditure management. Implementation of performance budgets and the imposition of a resource-constrained planning framework through the MTEF are central to CSD’s programme for improving agency performance. Similarly, reforms, such as the decentralisation of responsibility for human resource management, will have important implications for the design of the budgeting system, requiring broader strategic controls, consolidated resource envelopes, a medium-term perspective and links to performance measures.

This inevitably raises concerns regarding co-ordination and sequencing. Although there are mechanisms for co-ordination between the reforms, through an inter-ministerial steering committee and working groups, MoF’s public expenditure reforms have been rolled-out at a faster pace. The MTEF and performance budgeting were extended to all central government agencies in FY01,

while CSD's Performance Improvement Model is still restricted to ten pilot agencies. In the absence of substantive preparatory work, in terms of functional reviews and consultations leading to the formulation of agency missions and strategic plans, it is doubtful that the introduction of performance budgeting alone will have a significant impact on agency management and operations. These co-ordination problems are compounded by the large number of reform initiatives that are currently underway, within core government, at the sectoral level and through the local government reforms.

More fundamental concerns have been raised regarding the Government's commitment to the reform agenda. For Therkildsen (2000) the prognosis is poor. He argues that, while individual ministers and senior officials may be active proponents of particular reforms, 'it is difficult to identify strong domestic political support for the reform package as a whole' (Therkildsen, 2000: 63). Quoting from a Government-commissioned study of senior management undertaken in 1998, he notes that 'Ministers and Permanent Secretaries would appear to be somewhat distanced from the reform process' and 'revealed a surprising lack of knowledge' regarding the reform agenda. The World Bank quotes a government sponsored analysis of policy-making which found 'a vacuum at the apex of the policy development process.'

When policy drafts are circulated the response rate is very low, despite some officials being deeply involved, as in the PRSP process. Political indifference and passive resistance within the administration is, in part, a consequence of the limited political benefits generated by previous reforms. Most of reform measures meant reductions in staffing, pay levels and controls. Public opinion about the reforms is not well documented, but generally they are thought to have brought 'pain' without leading to improvement in service delivery indicators. The World Bank's Public Sector Reform Project, which is bank-rolling key elements of the reform agenda, advocates the identification of 'quick wins' in order to mobilise support for the reform agenda (World Bank 1999).

Tanzanian observers inside and outside of government regard donors' influence as intrusive and have written about it. Outsiders tend to see it as benign, and that donors may support technocrats. In any case the question remains to what extent donors can really help push away resistance to change. Some observers go so far as to conclude that there is no commitment to improved financial management despite the Warioba Commission and two PERs and that 'civil service reform was very much a donor-driven process with little or no backing at the political level' (World Bank 2000).

### **4.3 Decentralisation policy**

Decentralisation featured in the 1995 election platform. It subsequently received a major impetus through the launch of the Local Government Reform Programme (LGRP) in 1999. The programme was conceived as a means to improving the quality and availability and appropriateness of public services in five priority sectors: health, education, water, agriculture and roads. One of its main objectives is to foster governance by enabling local authorities to find local solutions to local problems, involving local people more in the policy process, and by making local authorities more directly accountable to the local population. Since it is at the core of improving service delivery, from a poverty perspective it is one of the most significant of the ongoing policy reforms.

The LGRP is being introduced in phases to a total of 19 urban and 82 rural councils by 2004. City, municipal, town and district councils will be democratically elected and fully responsible for service delivery in education, health, water, roads and agriculture; social development; and maintenance of law and order. For example, responsibility for delivering health services is shifting

from District medical officers and Health staff to District Councils. Under the LGRP local authorities receive cover control over staffing, as well as gaining more operational freedoms over planning and budgeting matters. District Administrations prepare plans and submit them to District Development Committees before they go to full Council for debate. Once agreed the plans go to Regional Development Committees before being passing through National Planning Commission and finally submitted to Parliament. In this system the regional administration acts as watchdog, and central government exerts control through the issuance of grants.

The Amended Local Government Act of February 18, 1999 provides for issuing of conditional and unconditional block grants to finance programmes drawn up by local authorities. Funding levels are increasing as these new types of grants are rolled out to all LAs, starting with 37 districts in Phase I (FY 2000/01) and another 42 in Phase II (FY2001/02), with the remainder in the following fiscal year. Existing grants to local authorities specify expenditures by sector and distinguish between OC and PE. Expenditure is sometimes earmarked down to specific lines within OC. National planning and budgeting guidelines limit the autonomy of the district councils.

Under the LGRP the councils are responsible for meeting national minimum standards, which are financially quantifiable, fundable, achievable, compatible with sector plans and measurable. Central government will gradually move away from its implementation responsibilities and play the role of auditor. This shift in function has already resulted in a reduction in regional staff of central government from 700 to 80 per region (IMF 1999).

### *Progress and problems*

Basic social services fall increasingly under the responsibility of local authorities. Therefore, a successful decentralisation process is a precondition for achieving government's poverty reduction goals. However, a number of obstacles to decentralisation remain, particularly in the areas of revenue, channels of accountability, sector programmes vis-à-vis LGRP, minimum standards of service

The lack of resources remains a key constraint to improving services. Between FY96 and FY99 the share of total recurrent expenditure going to regions and districts declined from 17% to 12%, although their share of the discretionary budget rose from 26% to 29%. Local authorities' own revenues covered 19% of their total income in FY93; 31% in urban and 16% in districts. Indications are that own contributions have declined since then. A sample of 42 rural councils between FY95-FY98 showed the following main sources of own revenues: development levy 28%, agricultural 25%, business and liquor licences 11%, and fees and fines 11%. Local authorities need to overhaul their revenue structure so as to improve efficiency and improve administration, potentially by simplifying the system and engaging villages to collect development levy and other taxes (World Bank and GoT 1999).

There are tensions between some sector ministries and MRALG, over different visions on channels of accountability and reporting, and over the speed of decentralisation, and minimum capacity standards. Line Ministries claim that local authorities do not possess the capacity to implement the LGRP and to take over responsibilities for service delivery. At the same time it is questionable what level of capacity existed in the line Ministries in the first place. And Councils further argue that they will not be able to build up capacity without the delegation of responsibilities.

There is further tension around the question of whether sector programmes recentralise decisions over budget allocations. On the one hand, sector programmes potentially curtail local authorities' discretion over allocating resources between sectors and can also reinforce vertical sector planning structures thereby undermining horizontal local level planning. On the other hand, the aim of the

new block grant transfers is of course to encourage local authorities to prioritise allocation of funds. In the medium term, decentralisation will provide local authorities with more autonomy. However, the short term effect is less clear. As the LGRP only started in pilot districts in 2000, it is still too early to see the balance of these opposite effects in practice.

Disbursement mechanisms for local authority grants have improved. Between June 91 and June 95, disbursement of funds took place through regional administrations, offering them the temptation to retain part of the funds. From FY95 disbursements went direct to councils. However, a number of disbursement problems remain that the LGRP needs to help overcome. Councils appear to get less than their budgeted OC, and there are no clear criteria for allocation. Reallocations are made on the basis of need, so actual funds don't always get allocated in the same proportion as in the budget. Internal checks and balances in the system are limited as heads of sectoral departments generally do not know how much they should receive in first place and normally are not involved in the sectoral re-allocation of resources during the year. World Bank and GoT (1999) find that about 41% and 88% of OC grants for education and health, respectively, are diverted to other uses.

Successful decentralisation will also depend on LAs and the sector Ministries agreeing on minimum standards of public service delivery, including the selection and monitoring of relevant indicators. But it is proving difficult to agree on suitable indicators, that can also be reliably measured.

In principle, planning is intended to take place from the bottom up, but there is little activity below sub-district level. This may be for a number of reasons. As Councils are impoverished, people feel that there is little scope for changes and have little incentive to participate (Schou 2000). Moreover, traditionally there has been mistrust between the population and Council, because of financial irregularities, weak local civil association, and few opportunities for dialogues with council. Studies report widely known instances of abuse of land redistributions and sitting allowances and general misuse of public funds, e.g. by purchasing vehicles for their own use (Kelsall 2000; Schou 2000). There is resentment against paying development levy because people see few of the benefits.

## 5 Public Expenditure Management

### 5.1 Towards a reform strategy

During the late 1980s and early 1990s, reforms in public expenditure management focused on resource and expenditure programming, first through the introduction of a rolling public investment programme and then, in 1993/94, with the introduction of a 'Rolling Plan and Forward Budget', integrating both recurrent and investment expenditures. Both of these instruments were managed by the National Planning Commission, which thereby assumed a key role in the budget process by providing the strategic framework, which served as the basis for establishing expenditure limits. These instruments were to provide the means of prioritising public expenditures and cutting back on the range of activities financed by the State. The 1994 Public Expenditure Review, for instance, argued that scarce domestic financing should be restricted to a 'core investment programme', while the rest of the portfolio should be screened and non-priority programmes wound-down. The Forward Budget was supposed to provide the basis for a prioritisation, while the forward estimates of both recurrent and investment financing should guide the re-orientation of public spending away from lower priority activities (World Bank 1994).

From 1997 attention turned to the Medium Term Expenditure Framework as the essential mechanism for forward resource planning. The subsequent years produced new planning instruments in the form of NPES and the PRSP. Institutionally, the Ministry of Finance played an increasingly dominant role in these new initiatives. It also took over the lead in the preparation of the development budget, thereby further marginalising the Planning Commission. From a resource planning perspective it is apparent that there is no explicit link between the NPES/PRSP and routine operational planning instruments. The rolling National Strategic Plan, to be developed by the Planning Commission, could become the important link in-between, and thus also raising the stature of the Planning Commission. However, at this point it is not clear when this activity will be launched.

The MoF's draft Medium-Term Strategic Plan 2000-04 provides a coherent framework for expenditure management reform. The strategy builds on the successful reforms of the 1990s, notably: the introduction of centralised cash management and centralised payments, supported by an integrated financial management software; performance budgeting; the Medium-Term Expenditure Framework; routine Public Expenditure Reviews; an external debt strategy; and the first steps towards an external assistance strategy. The Strategic Plan outlines an ambitious programme of reforms intended to strengthen accountability and improve the efficiency and effectiveness of public expenditure management systems. Implementation of the reforms is heavily front-loaded, with the majority of implementation targets in the 2000-2002 period.

Some slippage is expected, and rescheduling will probably be needed. Moreover, it should be stressed that target dates refer to the implementation of technical measures. They do not indicate the dates on which the measures introduced will be operative. This will take considerably longer, as techniques will have to be institutionalised, staff trained and additional human resources provided in order to manage the financial management systems effectively. Consequently, the full benefits of the reforms in terms of improved accountability and efficiency and effectiveness in public services are only likely to be realised in the medium to long term, and then only if adequate resources are provided to develop the human capacity needed (Fozzard and Naschold 2001).

## 5.2 Strategic prioritisation and resource allocation

The extent to which actual expenditures reflect poverty reduction goals depends on:

- Institutional arrangements which give the Ministry of Finance sufficient authority to control the expansion of expenditure and direct its allocation in line with priorities.
- Budgets being structured in such a way as to make explicit the link between resource allocations and policy objectives.
- A credible mechanism for forward resource planning.
- Resources being delivered as planned.
- Compliance being assessed and enforced.

This section addresses the first three of these issues, section 5.30 the last two.

### *Budget classification and coverage*

MoF introduced a revised chart of accounts in the FY98 budget. This provides for an administrative, functional, territorial and economic classification of government expenditures, together with performance budgeting codes. Only the administrative and economic classifications are currently presented in budget documentation, though the administrative classification is fairly detailed, distinguishing agencies' divisions and cost centres. Application of the new codes has significantly improved transparency, by, for instance, distinguishing more clearly between expenditures on personnel and operations and maintenance. However, the new codes are only applied to the Recurrent Budget. Detailed breakdowns of expenditures on development expenditures are available for the domestic contribution and external financing executed through the IFMS, but for most of the development budget, information – where available at all – distinguishes only the project and its administrative location. Consequently, it is difficult to gain an overview of the structure of public spending.

MoF intends to extend the new economic classification to the development budget in FY02. It is also finalising a detailed functional classification, which should allow more comprehensive analysis spending on priority activities within the public sector, and a computerised budget management module which should allow the compilation of budgets by major output and activity. Once these have been implemented, it will be possible to undertake detailed multi-dimensional analysis and budget monitoring.

The poor coverage of development assistance, both in terms of reported disbursements and planned commitments, remains a major handicap for strategic resource planning. The current development budget process suffers from a number of problems. It does not allow MoF to determine whether the proposed expenditures have gone through an appraisal process; projects are appraised and approved in isolation, and therefore are at best consistent with government policy, but unlikely to be the most efficient use of funds; lack of project monitoring information does not allow an assessment of performance; and there is no systematic information on the composition of project expenditures, as the format follows donor rather than government classifications. The implementation of the economic classification for the development budget will require a return to project-by-project programming and financial reporting (Fozzard and Naschold 2001).

### *Performance budgeting*

Performance budgeting was introduced on a pilot basis in FY98 in order to reorient agencies' budget formulation from an incremental, input-based approach to one that focuses on activities and outputs. Following a review of the pilot experience, Performance Budgeting was extended to cover

all central agencies from FY99 using a standardised methodology (MoF 1999). This required agencies to present an Annual Report and Service Improvement Plan, or Annual Report and Capacity Building Plan for each Regional Secretariat, comprising a statement regarding the agency's vision, mission, prioritised objectives, policies, strategies and target tables together with three-year service delivery targets. The budget proposal identified the activities needed to achieve each target, together with all the inputs needed to implement each activity listed according to the detailed GFS code. It also included a statement regarding the agency's performance against targets identified in the previous year, though a separate performance review was supposed to be prepared shortly after the end of the financial year, and every three years the agencies were supposed to undertake a detailed impact assessment in which the strategy would be reviewed. In FY99, a revised methodology incorporating an extended stakeholder and SWOT analysis and an extended budget frame covering the three years of the rolling MTEF was piloted in the eight priority sectors. All agencies are required to apply the revised MTEF methodology in the FY01 budget exercise, though Regional Secretariats will continue to produce the annual plans and budgets.

The Performance Budgeting approach adopted by the MoF is technically ambitious, particularly when one considers the Budget Division's and agencies' limited capacity. It has forced agencies to think about targets and link resources to activities, and clearly has the potential to become a 'meaningful instrument for assessing organisational performance and helping them to plan' (World Bank and GoT 1999: 90). However, full implementation of the Performance Budgeting methodology is likely to take several years. Although it is to be applied across all agencies, the MoF has indicated that it focus its limited resources for technical support and training on the priority sectors. Over this period a number of issues will have to be addressed:

- **Level of analysis of targets and activities.** The Performance Budgeting methodology applied generates detailed budgets, which may be useful to agency managers but are less relevant to MoF or oversight authorities. The voluminous budget documents are difficult to compile and interpret, particularly as regards the links between activities and output targets. This rather undermines the rationale of the performance budgeting process. While the introduction of the Budget Manager Module in the Integrated Financial Management System (IFMS) for the preparation of the FY01 budget should resolve compilation problems, budgetary analysis and contestation would be facilitated by the presentation of budgets according to consolidated targets, leaving the detailed breakdowns of activities and inputs to the agencies themselves.
- **Selection of appropriate targets.** Several agencies encountered difficulties in formulating meaningful and quantifiable targets, defining activities that contribute to outputs, costing of activities and programming these activities over a three-year period. Targets should correspond to strategic goals – such as those that have been identified in the PRSP – and can be routinely monitored over the medium term. Some core indicators have been identified in the health sector but the framework for routine monitoring of institutions across the public sector has yet to be defined. Considerably more work needs to be undertaken too on the costing of targets and activities.
- **Integrating personnel and development expenditures.** At present, the performance budgeting approach is applied primarily to the programming of Other Charges. Although some agencies have tried to integrate personnel costs, most agencies treat them as a fixed overhead and the methodology specifically excludes development budgets expenditures. MoF will have to develop methodologies that integrate these elements of expenditure if the approach is to serve as a basis for agency management.
- **Improving the predictability of budget allocations and forward estimates.** Where cash releases are routinely less than approved budgets allocations the underlying rationale for detailed budgeting at the beginning of the year is undermined, not only because the budget cannot be applied but also because it is not possible to hold managers to account for not



delivering their targets. Agencies are only likely to invest effort in the preparation of budgets if they will be used as a guide to the allocation of funds in a year. Similarly, agencies are only likely to prepare detailed forward budgets where the forward estimates are shown to be a reliable predictor of future resource allocations.

The introduction of the IFMS will tackle some of these problems. Notably, it can help facilitate the move towards performance budgeting, and the formulation of strategic plans. However, experience to date suggests that simply rolling out the financial management system will not by itself improve performance budgeting or strategic planning. The August 1999 evaluation noted that it was time to produce consuming and capacity intensive performance budgeting target tables for the previous year's performance and an outlook for the next years. It also pointed to continuing difficulties in analysing performance in relations to key targets.

So far the IFMS is operational at central Ministry level. Ministries know their monthly allocations immediately after they have been approved by Finance, and beginning in July 2001 the IFMS will generate monthly commitment and expenditure reports (IMF 2000), which will significantly strengthen budgetary oversight. However, while rolling out the system to the districts is underway, this is encountering some obstacles which mean that at least in the medium term budget monitoring and enforcement systems are unlikely to be able to rely on the IFMS (see section 6.3). Given that district performance is becoming increasingly important for many poverty-related expenditures, this means that in the meantime existing systems need to be upgraded to improve budget execution.

### *Public expenditure reviews*

The Public Expenditure Reviews undertaken in 1989, 1994 and 1997 were led by the World Bank and, though the 1997 review was co-ordinated by the MoF, they were clearly intended as independent, external assessments of Government performance, concluding with experts' recommendations regarding improvements in the financial management systems. In June 1998 Government and donors agreed to a change in approach. The PER has moved to an annual cycle and, although the World Bank continues to play a leading role, with the Country Office acting as secretariat, a conscious effort has been made to integrate the PER into the Government's budget process, with MoF and sectoral Ministries taking a more active role.

As currently conceived, the PER fulfils four functions: firstly, it provides support to the Government budget process, in particular the preparation of the MTEF and Budget Guidelines; secondly, it analyses the composition of government spending, its consistency with policy and the effectiveness of programmes; thirdly, it supports the development of public expenditure management systems; and lastly, it ensures transparency in public expenditure management by involving donors in policy and performance reviews.

The FY00 and FY01 PERs have been prepared in two stages. The first stage, undertaken from September to December, supports the preparation of Budget Guidelines, including the resource envelope and sector expenditure limits. These are used in up-dating the sector MTEFs and donor financing plans. The second stage, undertaken from November and ending in May in FY00, entails an evaluation of performance during the previous year and identification of issues and priorities for system reform. Both stages of the review are supported by research commissioned from Tanzanian institutions, such as the expenditure tracking and fiscal decentralisation studies undertaken in 2000. The FY00 and FY 01 PERs culminated in consultative meetings in May of each year, with government agencies, donors, members of parliament and civic organisations participating, in which the principal conclusions of the review are disseminated and debated.

The Government and the staff of priority sector agencies are clearly committed to the PER process. It provides an effective mechanism for consultation and co-ordination with development partners and ensures external transparency in policy formulation and implementation. In the absence of alternative, internal reporting and evaluation mechanisms, the PER has also become the means by which the Government monitors the implementation of public expenditure and assesses its effectiveness. Obviously, this raises concerns regarding the sustainability of the PER process, particularly given the fact that external consultants – rather than line managers and government staff – carry out much of the analytical work. Although MoF would like to internalise the PER process, external consultants will continue to play an important role, partly owing to capacity constraints within MoF and sector agencies, but also because the donor community regards the external consultants as an independent test of the integrity of the review process.

At present, MoF gives high priority to the PER's external transparency function. Less attention has been given to the requirements of domestic accountability, which would be better served by summary documents in Swahili, presented through a formal review process involving parliamentary committees, alongside the open debates involving donors and civil society organisations. As the 1998 PER noted, there is a tension between donors' and government's requirements for the PER process, in terms of the timing, coverage and degree of external involvement. Both donors and Government agree that the PER should focus on the priority poverty-reduction sectors. However, if the PER is to serve as the Government's internal expenditure review, it should regularly cover all major spending agencies – including more sensitive areas such as the police and armed forces – and periodic reviews of expenditures in smaller agencies, possibly through a rolling multi-year programme of expenditure reviews. This would also open the whole of Government to public – and donor – scrutiny, to an extent that politicians might not necessarily find comfortable.

### *Medium Term Expenditure Framework*

The 1998 PER argued that one of the fundamental weaknesses of the public expenditure management system was the 'lack of an effective Government-led budget strategy underpinning the formulation of public expenditure plans and their execution' (World Bank and GoT 1998: 1). This was, supposedly, the function of the Rolling Plan and Forward Budget, prepared by the National Planning Commission from FY93. However, as the 1997 PER pointed out, the RPFb proved a disappointment: there was little political commitment to the forward estimates; links to MoF's budget process, particularly the setting of expenditure limits, were poorly articulated; and the sectors were not adequately involved in the formulation of forward estimates.

To address these concerns, the FY98 PER introduced a Medium Term Expenditure Framework, which has subsequently supplanted the RPFb. The MTEF is prepared in two stages. First, the Macro Group, working with the National Planning Commission and MoF, defines the resource envelope and broad allocations between sectors and components of expenditure. These estimates are used as the basis of the Budget Guidelines, which set out the following years' budget limits and indicative limits for the outer two years of the MTEF period. Then, sectors prepare detailed sectoral programs, usually working with donors through the sectoral Working Groups, laying out expenditure requirements for the MTEF period and proposals based on the limits set out in the Budget Guidelines.

The MTEF has been instrumental in increasing the share of resources towards the priority sectors, and priority activities within these sectors. Initially, however, the MTEF set sectoral limits only for those components of expenditure that were discretionary in the short term and are directly controlled by Government – domestic contributions to the development budget and 'other charges' – covering around one-third of non-statutory domestically financed expenditures. The two largest components of non-statutory expenditures, personnel and externally-financed development of

expenditure, have been allocated through alternative mechanisms: personnel expenditure on the basis of staffing levels and salary adjustments approved by the Civil Service Department during the budget process; externally-financed development expenditures on basis of financing agreements for individual projects. This segregation of different components of expenditure in the resource allocation process has discouraged assessments of the trade-offs between them and limited the scope for agencies to restructure expenditures in line with Government policy over the medium term.

In FY01, some progress has been made in terms of integrating the various components of expenditure through the MTEF process, with priority sectors presenting proposals that included personnel expenditure and reported external financing. However, it was not always possible to present all expenditure components using a common structure. In the longer term, when responsibility for the management of human resources is decentralised to agencies, in line with the on-going public sector reform programme, agencies' domestic resource allocations will be presented as a single limit, allowing managers to determine the appropriate balance between personnel expenditures and other components to meet their needs. Sectoral limits could also be adopted for external financing, replacing the current bottom-up, donor driven process for allocating project aid. Although such limits would not be enforceable in the absence of a comprehensive aid reporting system, they would send a clear message to agencies and donors regarding the appropriate levels of external expenditure for each sector.

As the MTEF becomes the principal mechanism for determining resource allocations, political intervention becomes increasingly important. At present, political intervention is achieved through Cabinet's approval of the Budget Guidelines and the estimates submitted to Parliament. Donors participate in the formulation of expenditure policies through the PER Macro and Sectoral Working Groups. Parliament, on the other hand, is involved in the approval of expenditure decisions at a relatively late stage, once detailed estimates have been prepared by the sectors. Clearly, for the purposes of domestic accountability, there is a strong case for parliamentary review of the Budget Guidelines, prior to their distribution to sectors, so that it can influence policy at a stage in the budget process when allocations can easily be changed.

### *Sectoral initiatives*

A number of sector programmes are either operating or under preparation. In their early stages they have tended to suffer from the absence of a credible resource framework for planning and from not sufficiently linking policy objectives and expenditures. Sector reviews have not been given a firm resource framework within which to work (World Bank 1997), so that some sector programmes have assumed unsustainable levels of financing (World Bank and GoT 1999).

The Education Sector Development Programme has been under discussion for a number of years, but its development has suffered from poor coordination and management, inadequate financial management systems, and a lack of focus on children and on the situation in the classrooms. At this stage agreement between government and donors of what the National Strategy should cover is still outstanding. The current draft National Strategy sets targets for the medium term for main indicators such as PTR, pupil-classroom ratio and pupil-textbook ratio, but it does 'not yet indicate how, when or by whom, or with what resources programmes would be implemented nor make choices among programmes' (OPM 2001:34). The ESDP contain an analysis of the problems in the sector as well as a list of targets and summary cost estimates. However, it fails to make choices between programmes nor does it outline the precise role of government in the sector. Strategic prioritisation between expenditures is severely hindered as there are no central records of external funding for education. PER Working group estimates for next two years suggest that donor funding will contribute 93% of development-expenditure, and 21% of total education expenditure. More

than half the funds are not going through the government budget, but flow directly to local authorities and/or programmes.

The Health Sector Reform Programme started in 1994 and has begun to shift emphasis from curative to preventive health services (World Bank 2000a), but as yet there have not been any noticeable effects on health status of the poor.<sup>15</sup> Similarly, while the shortcomings of health service delivery have been identified through efforts under the health sector reform programme, including the recent health sector PER, policies do not necessarily yet reflect this information. The PRSP, for example, largely fails to explicitly take account of the consequences of HIV/AIDS, despite the fact that the pandemic may be the greatest development challenge for Tanzania, and is likely to cripple the public health care system. Each AIDS case treated through the public health care system costs around US\$290 per year in care and medical costs (UNDAF 2001:8), while only an average of US\$6 will be available per capita per year.

Furthermore, there is a disjunction between the planning framework favoured by donors and central government (the PRSP) and the Ministry of Health's own medium term health strategy. The eight priorities of the latest MTEF, for example, make no mention of the PRSP targets. Ownership very clearly lies with this strategy and not the PRSP. The sector strategy takes insufficient account of resource availability, and prioritisation of expenditures is poor (see Health PER), as is the link between national policies and health sector policies (Naschold et al. 2001).

Agriculture suffers from the absence of a clear strategic direction. The Rural Development Strategy exists only in early draft form, and is unlikely to be finalised before the end of the year. The Agricultural Sector Strategy has progressed further, but implementation cannot be expected to begin before 2002. Moreover, the draft does not suggest that fundamental decisions about the role of the state in agriculture have been tackled. On the contrary, a main conclusion of the draft is to very substantially increase government funding for the sector. As the drafting of the strategy has been chaired by the Ministry of Finance, there may be support for it at central government level. Questions remain as to whether the current approach to agriculture is able to help to deliver the medium term, or indeed, the long term targets (Naschold et al. 2001).

### **5.3 Budgetary oversight and compliance**

Tanzania's basic systems of expenditure control and accountability are improving, but as the following statistics from the 1999 PER (World Bank and GoT 1999) show these improvements are from a low base. 60% of ministries' accounts in periods FY94-FY97 received qualified or adverse reports, as they contained major errors or lacked bank account reconciliations. Similarly only 26 of 102 authorities submitted accounts in FY94. While this number rose to 87 in FY97, 76% of audited local authority statements but qualified or adverse. And improper or un-vouched expenditures rose from 5.5% in FY94 to 8.4% in FY97. In FY97 nearly 1 billion in cash and stores – or 0.25% of total expenditure – was embezzled. Common problems include failure to comply with and submit arrears of revenue; goods paid for were not received; failure to assess and collect revenue; absence of payment vouchers; absence of supporting information on payments; embezzlement of cash and stores; and non-presentation or completion of bank reconciliations.

Reasons for these problems are well known. Ministry staff are poorly remunerated and/or have low capacity. The Permanent Secretary of Finance has less authority than in other countries as he is at same level as other Ministries' Chief Accounting Officers, so he cannot exert sufficient control. In

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<sup>15</sup> If anything the health status of the population worsened in recent years (see section 2).

addition, there is a problem of dual accountability: one to parliament and another to donors, which further stretches limited government capacity.

Budget oversight is made more difficult due to the fact that large items are off-budget, such as much external assistance, some development expenditures, and the road fund. This does not only affect the efficiency of resource allocation, but also hinders efforts to monitor expenditures and enforce compliance. The latest education sector PER, for instance, found no central record of external financing in the education sector, although foreign assistance accounts for a very large proportion of expenditure in the sector. Projections compiled by the PER Working Group suggest that annual expenditures of US\$75 million are planned by donors for the next fiscal year. This is equivalent to 93% of the development budget and 21% of total education spending as presented in the MTEF (OPM 2001). Donor funds bypassing the budget also creates problems at district level. Large donor funds are passed directly to local authorities and programmes. Monitoring is further complicated by the fact that there are no central records of own-funds generated in districts.

There are no special arrangements for tracking poverty expenditures beyond occasional expenditure tracking studies. The latest tracking study finds significant variations between actuals and budgets at four levels, which suggest that an assessment of budgeted public expenditure patterns reveals little about the impact of public expenditure on the poor. First, as a consequence of cash budgeting, disbursements tend to be lower than approved estimates, particularly, but not exclusively for PE (ESRF and REPOA 2001, Semboja and REPOA 1999, World Bank 2001 FY PER main mission). Second, receipts by local Councils for OC are lower than disbursements from the Treasury. Third, there are variations between Councils, with urban councils receiving a larger proportion of the budgeted funds than councils in rural areas (REPOA and ESRF 2001:15). Fourthly, there are large discrepancies between the earmarked sectoral allocations of treasury releases, and the funds that actually arrive in the sector bank accounts at council level. This represents a *de facto* reprioritisation of expenditure, sometimes between priority sectors, and sometimes away from priority sectors.

In the service units sector heads often do not know what the policy priorities are and what the sectoral allocation should be. This is made worse by the cuts through cash budgeting. In practice sector heads allocate funds independently of the planned budget, and prioritise expenditures that help in running the department instead of those benefiting the service units, e.g. large parts of the OC are spent on travel and vehicles, rather than school materials and drugs (REPOA and ESRF 2001:19). This mirrors the findings of earlier reviews (e.g. REPOA 2000). Thus, reallocations of funds occur both between sectors at Council treasury level, and within sectors as sectoral heads have insufficient information about priorities. The major problem is the lack of transparency regarding transfers, which creates space for diverting funds away from budget allocations.

## **5.4 Integrating external assistance**

Tanzania has benefited from substantial inflows of external assistance, but the Helleiner Report and World Bank's 1994 PER concluded that in the past aid was not always channelled towards priority activities and in some cases aid actually undermined national capacity to deliver its development programme.

Solutions to these problems have been found at various levels. The annual PER process, in which donors participate through working groups and the provision of consultancy inputs, and quarterly reports on fiscal performance, have greatly improved transparency in policy formulation and implementation. Quarterly consultations on the sector programmes, provide an opportunity for donors to monitor programme implementation and participate in programme design. Donors have also been closely involved in the PRSP process and the PRSP monitoring working groups. In early

2001, the Government undertook a Country Financial Accountability Assessment, again with donor support, leading to generally positive evaluation of the financial management system and preliminary action plan for the resolution of the remaining fiduciary risks (GoT 2001a). These measures have done much to restore confidence in Government systems and have facilitated the setting of common strategic objectives.

Government has also taken the lead in formulating a development co-operation policy, laid out in the forthcoming Tanzania Assistance Strategy (GoT 2001). TAS focuses on aid management issues, indicating the Government's preferred mechanisms for aid delivery. While the Government recognises that a substantial proportion of aid will continue to be delivered as project aid, it is acutely aware of the difficulties this presents, particularly as regards co-ordination, duplication of procedures and reporting. Consequently, TAS calls on donors to: harmonise financial reporting procedures with those of Government by adopting IFMS as the basis for project accounting; adopt basket funding procedures wherever practicable, as is currently the case in Health and Local Government Reform Programme; collaborate in the presentation of rolling, medium-term forecasts of aid flows in line with the MTEF so as to ensure a more predictable flow of resources; untie aid; move towards budget support; and decentralise decision making to country offices. Although TAS has yet to be formally approved, many of the principles are already applied.

Progress has been made in the establishment of basket funds, with common procedures, to support the health, education, roads and local government reform programmes, though only the health basket fund is fully operational. A Multi-lateral Debt Fund was established by eight donors in 1997, to channel approximately US\$100 million a year – about 10% of all aid – for multilateral debt servicing. This is now being transformed into a Poverty Reduction Budgetary Support Facility as debt servicing requirements are reduced in line with HIPC (Danielson and Mjema 2001). The PER Macro Group suggests that around 35% of aid will be provided as budgetary support in FY01.

The increasing proportion of funds channelled through basket funds and budget support has strengthened the Government's hand in the management of external assistance and underlined the importance of national planning and resource allocation instruments. As confidence has been restored, aid flows have recovered to the level of one billion dollars a year seen in 1991. Problems remain, however. Most aid is still channelled through standalone projects, with all the complications in terms of parallel systems and poor co-ordination this entails. There are large numbers of active donors operating in the key sectors – 14 in health and 16 in education – placing a heavy burden on the Government's aid co-ordination and management capacity. Reporting on commitments and disbursements remains deplorable, with less than half of external assistance recorded on budget, undermining the MTEF and sectoral planning processes. Much of the assistance provided in the late 1990s has been dispersed, with less than 20% of ODA flows allocated to basic social services (IMF and IDA 1999). On balance, however, Tanzania's experience in integrating external assistance into national systems has been extremely positive and has undoubtedly made a significant contribution to the realignment of public spending with poverty reduction goals.

## 6 Information and Analysis

### 6.1 Poverty monitoring and analysis

Improving the poverty focus of budget expenditure depends on knowing who the poor are, their constraints to moving out of poverty; how and why poverty is changing and gender, age and geographical differences in poverty. Poverty information is crucial for government to make policy, for other actors such as local authorities to implement it, and for civil society to monitor government's commitment to and performance on poverty reduction. In the past, the lack of consistent poverty data has made this difficult. Good poverty information is scarce in Tanzania, and not enough is known about both quantitative and qualitative aspects of poverty. This obviously constrains any attempt to analyse the poverty orientation of public expenditure.

#### *Poverty monitoring to date*

While several monitoring techniques are in place in Tanzania, historically they were neither comprehensive nor frequent enough to effectively monitor poverty or to help justify changes in expenditure patterns. Poverty reduction has been a concern to government, and poverty reduction strategies have been drafted in the past, but the lack of accurate data has limited the extent to which public expenditure decisions could be based on poverty information. Data collection has been mainly ad hoc often related to particular (donor funded) projects. Weak links and communication between data producers and users have emphasised the supply driven nature of the system. Collection, analysis and dissemination of data were not co-ordinated, leading to duplication of efforts in some areas and neglect in others. Thus, while the late 1980s and early 1990s have generated a fair amount of data on poverty, these suffer from a number of problems. A lack of consistent definitions of poverty has led to compatibility problems, which in turn makes analysis of poverty trends over time vague. The lack of consistency is due to the use of different consumption baskets, poverty lines, sample sizes and population coverages. More systematic Annual Poverty Reports, of the sort that inform policy making in e.g. Uganda (see Foster and Mijumbi 2001), are planned for the future.

The information that does exist has been insufficiently used, whether within Government or in discussions in the wider public (see Booth and Cooksey 2000). This has meant effectively that policy decisions and resource allocations have not been based on existing evidence. One of the key challenges to improve the link between poverty information and budget allocation is to strengthen dissemination of relevant information in a suitable format, and encourage policy makers to use it. This includes improving capacity in the country to produce and analyse statistics, and the capacity of policy makers to understand and use the results as a matter of routine.

Data collection tools used in the past include household surveys, population censuses, labour force surveys, participatory poverty assessments and demographic and health surveys (see Table 13 for a summary of dates). Other poverty information is compiled through routine data collection systems, which are important as an annual (or more frequent) source of information, and have particular relevance to the operations of Local Authorities. Current routine data collection systems suffer from a number of weaknesses: there are problems with quality and timeliness of data, and with the format of the data from the point of being used by LAs in their decisions. Data is mostly passed on, rather than acted upon. Furthermore, there is little co-ordination between different routine data systems, as they are organised along departmental lines, and data is collected in parallel and in isolation: with e.g. education data collected by MoE, and health data by MoH. And information collected at the village, ward and district level is rarely fed back, which has created gulfs between

data producers and users.<sup>16</sup> This results in a lack of incentive to collect accurate data in the first place, and partly explains the poor quality of the data. It also limits the opportunity to make informed decisions at local level. Improving local level data will become even more important as the LGRP increasingly transfers responsibility for service delivery to the district level.

In theory, overall responsibility for co-ordinating monitoring of implementation and impact of the poverty reduction strategy rests with the National Poverty Eradication Division within the Vice President's Office.<sup>17</sup> For a number of reasons, in practice, the National Poverty Eradication Division has been unable to fully meet its mandate.<sup>18</sup> To begin with, its location, while seemingly central, has proved inadequate to compel line ministries to collaborate and participate in a policy dialogue. NPED has for example been unable to push through the planned poverty review of government's macro, sectoral and multi-sectoral policies, and to make departments and ministries evaluate the poverty impact of their policies (Booth and Cooksey 2000). The inability to carry out the poverty focused review of policies, and the revision of planning guidelines has been identified as the major failing of the NPED, and which has prevented the mainstreaming of poverty in government policy (see Vice President's Office 1997b, Booth and Cooksey 2000). The most effective means of firmly embedding poverty concerns in policy making would be to locate the central poverty unit in the Ministry of Finance, to link poverty as much as possible with decisions on resource allocation.

As a result of these weaknesses of the NPED and given the importance of poverty-related issues in both the HIPC Initiative and PRSP exercises, the Ministry of Finance has *de facto* taken on a very important (albeit not formally defined) role in poverty-related issues. For example, as indicated previously, the PRSP technical committee is currently overseeing the establishment of the institutional framework for poverty monitoring.

The Planning Commission could potentially contribute to poverty analysis, especially through the macroeconomic working group<sup>19</sup> that it chairs. The perception in Government, however, is that specific responsibility for the use of data on poverty, rests with the NPED. In conjunction with the increased marginalisation of the Planning Commission, it appears there is a 'role vacuum' for the Planning Commission.<sup>20</sup>

As the primary data collection agency, the National Bureau of Statistics is expected to continue playing a pivotal role in poverty monitoring. In March 1999, it became an Executive Agency and has significantly reduced its staff complement from 250 to less than 80 at present. Up-to-date surveys and censuses are a pre-requisite for effective monitoring. Several overdue pieces of data are expected to become available in 2001/2002. These include the household budget survey (updated from 1992/93), a labour force survey (updated from 1990/91) and a population census (updated from 1988). The finalisation of these data and related follow-up activities will be the responsibility of the NBS. While the NBS has staff with long experience and skills in the technical aspects of data collection, it nonetheless faces a number of challenges as it attempts to fulfil its mandate.<sup>21</sup>

<sup>16</sup> If indeed they are users, not just compilers.

<sup>17</sup> Booth and Cooksey (2000) attribute the decision to locate poverty eradication in the Vice-President's office to political calculations related to the constitutional amendment that detached the Vice-Presidency from the Presidency of Zanzibar. According to them while the position has continued to be held by a Zanzibari leader from the ruling CCM, it does not entail any executive responsibilities for the islands. The perceived need to include some substantive policy areas in the Vice-President's portfolio led to the creation of units for environmental policy, NGO policy, Union affairs, as well as coordination of poverty-eradication initiatives.

<sup>18</sup> See Booth and Cooksey (2000) and UNDP Tripartite Review.

<sup>19</sup> Members include the Bank of Tanzania, Ministry of Finance, the National Bureau of Statistics and the Tanzania Revenue Authority.

<sup>20</sup> See ESRF (2000) for a discussion of the weaknesses of the policy analysis function of the Planning Commission and its marginalisation.

<sup>21</sup> See United Republic of Tanzania (2001) for a discussion of some of these points.



### *Poverty monitoring in future*

The NPES and particularly the PRSP have made the need for poverty information more apparent. Table 13 lists the surveys planned for the coming years. The surveys scheduled to be completed in 2001-2002 will significantly improve poverty information. Combining the results from the HBS and the census will allow a much more accurate mapping of poverty around the country, and will enable the setting of a better poverty baseline. Government also intends to carry out some of these surveys, for example the Participatory Poverty Assessment and the Household Budget Survey on a more frequent basis. The Poverty Monitoring Master Plan (second draft) plans to monitor output indicators through the sector programmes, input indicators through the MTEF/PER process, and outcome/impact indicators through the surveys.<sup>22</sup>

Quantitative poverty information will improve with the results from the household budget survey and the census. Future PPAs would lead to better qualitative poverty information, which will help to assess the impact of various interventions on the welfare of the poor, and provide the information necessary to continue to make policies more pro poor. Over time this will gain in importance as the general shift of expenditure towards priority sectors (the 'first stage' of pro-poor budgeting) can only go so far. Beyond that it becomes ever more crucial to know more about characteristics of poverty and livelihoods to target public expenditure more specifically (the 'second stage' of pro-poor budgeting).

**Table 13: Proposed Sequence of Surveys and Census (2001-2012)<sup>23</sup>**

Year	National Survey
2001	
2002	Census
2003	Agricultural Survey
2004	Demographic and Health Survey (DHS)
2005	LFS
2006	HBS
2007	
2008	Agricultural Survey
2009	DHS
2010	LFS
2011	HBS
2012	Census

The LGRP Monitoring and Evaluation system attempts to address weaknesses in local level routine data systems. However, as the LGRP M&E system will not become operational before 2004; existing systems will have to be improved to deliver poverty monitoring information until then (Poverty Monitoring Master Plan 2001). The Ministry of Regional Administration and Local Government is expected to play a co-ordinating role in data dissemination and exchange between different tiers of government – national, regional and district. Administrative, management information systems enable the triangulation of survey data. However, the quality of district level data varies and MIS information is not always reliable. A lot of information on poverty is available at district levels but it is not collected in a coherent fashion. With increasing responsibility for service delivery resting with district authorities, their data collection (and analysis) responsibilities are likely to grow. The location of the Ministry in Dodoma, far away from the other ministries may

<sup>22</sup> Core indicators were chosen if they satisfied three conditions: a baseline exist, at least one more observation is expected in the medium term, and implementation of the PRSP can have a measurable impact on the indicator. (Pov Mon p.8)

<sup>23</sup> Taken from Poverty Monitoring Master Plan (2001) Second Draft, which in its table 4.3 also contains a more detailed listing of poverty indicators collected by the planned surveys.

pose some co-ordination problems for MRALG. In addition, it is not clear how much clout they actually have with other sector ministries to garner the needed co-operation.

The Poverty Monitoring Master Plan draft identifies a lack of capacity as the major constraint to improving routine data systems. It will take considerable time to build up the necessary skills base at the lower administrative level, hence it is unlikely that the quality of administrative poverty information will change quickly, and therefore decisions on resource allocation will continue to be made on the basis of unreliable data.

## **6.2 Public expenditure analysis**

The Budget Guidelines inform agencies of the macro-economic framework for budgeting over the medium-term, the key spending priorities, the proposed allocation of resources by institution and key programmes for priority sectors over the three-years of the MTEF. Agencies' Budget Committees review last year's performance, set expenditure limits for departments based on the priorities in the Ministry's medium term strategic plan and distribute MoF guidelines internally. The Committees scrutinise and approve departmental proposals that are then compiled into the agency proposal for submission to the MoF by the end of March. The agency proposal is reviewed by the MoF Budget Division, which may negotiate alterations to the proposal during discussions. Once agreement is reached the proposal is finalised. The Budget Division consolidates agencies' budget estimates and submits them to National Budget Committee which in turn submits the estimates to Cabinet for approval. Changes required by Cabinet are introduced to the estimates directly by the MoF, rather than returning to the agency for re-submission.

MTEF submissions contain lots of detailed information, but it is sometimes difficult to get an overview of the extent to which planned expenditures are in line with government's main priorities. A strategic review of departmental expenditures is also constrained by the fact that personal emoluments and development expenditures – an important part of total expenditures – are planned outside the MTEF process. However, both the MoF and agencies report a qualitative change in the relationship over the past three to four years, whereby MoF personnel advise and actively participate in the formulation of agency budgets rather than criticizing proposals once they have been made. MoF staff are seen to be much more aware of agencies' needs and constraints than was formerly the case. This change is partly due to the move towards sectoral programmes and the MTEF which has provided MoF with an opportunity to review efficiency and effectiveness of sectoral policies at a broad strategic level, rather than discussing operational details in the budget submissions (Fozzard and Naschold 2001).

The PER process has become an integral part of the annual MTEF process. It follows the typical three-step analysis of public expenditure (rationale for expenditure, efficiency and effectiveness, and benefit incidence analysis). Major reviews of key sectors are carried out yearly. This is more often than in most developed countries, and threatens to make the PER content repetitive. For example, the 2001 Education sector PER in many instances mirrored the conclusions of the previous year's, as not that much had changed within 12 months.

The poverty focus is not yet fully operationalised in the budget. At present, the timetables related to poverty planning and the regular budget cycle are not synchronised. This makes it difficult to integrate the latest poverty information into the budget process at an early stage. The annual analysis through the PER process is the main means of monitoring the poverty focus and impact of public spending. This is sometimes supported by expenditure tracking studies, to help assess whether disbursements have been used for the intended purposes. Similarly, the PERs analyse differences between budgets and actuals. Reallocations through the cash budgeting system take

place even in priority sectors. This within-year reprioritisation is done by Ministry of Finance's Policy Analysis Division. Agencies' budget committees are not involved, which often means that they plan next budget on last year's budget, rather than on actuals.

### **6.3 Monitoring performance**

The agency performance reporting system currently in place is better suited to the requirements of agencies' internal management than those of the MoF and oversight bodies. Owing to the nature and number of the targets set, reports provided by agencies provide little insight into what has actually been achieved. The Performance Budgeting Manual issued by the MoF provides for quarterly reporting on service delivery targets presented in the Annual Plan and expenditure. In practice, however, agencies only provide reports on previous performance in their budget proposals. This includes a review of the last completed fiscal year and a mid-year review of the current fiscal year. Under the Performance Budget methodology this review has focused on budget execution, by target and activity, as compared with the initial estimates. Brief comments are provided on achievements and failures for each activity. However the methodology did not provide for a consolidated review of agency performance against each service delivery target.

Under the new MTEF presentation from FY01/02, all central agencies are required to review planned targets against achievements, but there is no guidance as to how this information should be presented. Most of the MTEF reports prepared last year provided only a textual review of performance and did not clearly set performance against the original target in a manner that would facilitate analysis by the MoF or oversight bodies.

Presentation of performance information in a format that facilitates analysis against original targets is essential to the implementation of a performance oriented budgeting system. The first steps in designing an appropriate performance budgeting system is an agreement between the financing body (MoF) and the agency on the monitoring and target indicators that will be used to assess performance, the means by which this information will be collected and verified and the form in which it will be presented. Ideally, these indicators should reflect the medium-term strategic objectives and intermediate indicators set out in the PRSP. Although some discussion has taken place in the health sector regarding the selection of appropriate targets, this type of analysis has not taken place in most sectors. Instead, MoF budget officers have focused on the detailed activity and input structure of the agencies' budget proposal. As a result, there is a multiplication of targets, most of which have operational rather than strategic significance, and few of which provide quantifiable measures of performance in terms of service delivery and outputs generated.

## **7 Transparency, Oversight and Participation**

### **7.1 Transparency of the public sector**

Tanzania has had serious problems with public sector transparency and corruption. The Warioba Commission (1996) documented corruption in the judiciary, police, civil service and revenue authority. It argued that the spread of corruption was not due to lack of appropriate rules and procedures but due to lack of compliance and enforcement. The Commission reported that staff of the Ministry of Works accepted bribes to approve upwards variation orders and to conceal contractors' weaknesses. Donors dealt with weak capacity by setting up project implementation units which just aggravated the problems of the Ministries. In November 1994 events came to head, when the newly introduced pre-shipment inspection records generated information on tax evasion which led to the replacement of the Minister of Finance and postponement of the CG Meeting (World Bank 2000). However, the Warioba report generated little follow up action. Only some of the smaller perpetrators were prosecuted, and most of them were moved, rather than fired. The main culprits were not brought to court. The elite is a tight network (Bigsten et al. 2001), and the President came up against increasing resistance to implementing the fight against corruption.

Corruption occurs at two levels. High level political corruption affects poverty reduction in two ways: through its effect on the business environment, it reduces the rate of overall economic growth; and it reduces government spending by lowering revenue (through exemptions and through lower economic growth). Fighting high level corruption requires power and commitment at the highest level of government and donors. Low level bureaucratic corruption directly impacts on the lives on most citizens. Its individual effect is smaller, but the cumulative irritations (e.g. access to utilities, payment of extra fees for health and education services), can be a significant impediment to economic growth and human development. Low level corruption is mainly due to the low wage level in the public sector. 95% of the government workforce in 1996 earned less than US\$105 a month, and on average civil service salaries over a range of benchmark jobs were 34% of average private sector earnings (World Bank 1997). Indications are that low level corruption is being tackled, but high level corruption is on the increase. Corruption may be rising because of increased opportunities, but also because of increased perception and wider reporting (World Bank 2000a).

Since then Tanzania has made progress in setting up an institutional framework to enhance transparency and fight corruption. The anti-corruption law was revised in December 1998, the National Anti-Corruption Strategy and Action Plan was adopted in November 1999. Specific anti corruption action plans for line Ministries are being developed with donor assistance, and have identified 'hot spots' for corruption in the Ministries.

### **7.2 Legislative oversight**

The Parliament in Tanzania is unicameral and popularly elected. It consists of the President of the United Republic on one side and members of the National Assembly on the other. In practice parliament has been playing only a limited supervisory role. Traditionally, it has supported the Government. This tradition started in the days of the one-party rule and is only slowly changing. Two main Parliamentary standing committees are involved in issues of planning and financial management: the Finance and Economic Affairs Committee and the Public Accounts Committee. The role of the Finance and Economic Committee is to scrutinise the revenue and expenditure estimates contained in the Budget and report back to the House on its recommendation. The Public Accounts Committee plays an ex-post role reviewing the government accounts at the time of the

report of the Controller and Auditor-General. Parliamentary authority over fiscal policy and public expenditure is primarily exercised through these Committees.

The Government submits printed Budget Books to Parliament three weeks before the June-August session – the budget year begins on 1<sup>st</sup> July. Until recently, the Finance and Economic Affairs Committee, with thirty members, was the only Committee involved in the review of Government budget proposals. During Committee hearings, Ministers present detailed Ministerial Memoranda and must respond to members' queries, providing an opportunity for detailed scrutiny of agency policy and performance. The Committee's recommendations are submitted to the National Assembly.

Parliamentary oversight could be strengthened by submitting a wider range of documentation to the Committees and involving the Committees at an earlier stage in the budget process. It is noteworthy that much of the documentation submitted to and discussed with the donor community, notably the PER and Budget Guidelines, is not formally submitted to Parliament, though members of parliament are invited to workshops on the PER. Neither forward estimates of resources and expenditures nor revenue estimates are subjected to Parliamentary debate and approval. The MTEF is not presented to Parliament for approval before the Budget Guidelines are finalised. Only the single year budget frame that includes the expenditure and revenue estimates is presented to Parliament for debate and approval.

Parliament only intervenes in the budget process at the last minute, a month before the new financial year, when detailed agency proposals have been prepared and the budget books printed. At this point, attention tends to focus on the details of agency proposals rather than the broad policy issues and there is likely to be institutional resistance to fundamental changes in the Government's proposals. Policy issues are obscured by the detailed presentation of the budget estimates and the limited information available on agency performance, particularly in relation to service delivery targets, and the lack of analytical summary tables, providing an analysis of the functional, economic and territorial allocation of resources. While the Development Budget attempts to analyse progress against targets, recurrent expenditures are not linked to previous targets for service delivery. Presentation of the forward estimates will provide an opportunity for parliament to influence future allocations, but Parliamentary intervention is likely to be more effective at point when MoF drafts the Budget Guidelines, when key allocation issues are discussed and can be more easily altered (Fozzard and Naschold 2001).

A recent Country Financial Accountability Assessment has suggested that Parliamentary scrutiny over the actual expenditures is less effective than its scrutiny over budget proposals (GoT 2001a). Consolidated accounts and the CAG's report are reviewed by the Public Accounts Committee and the Local Authorities Accounts Committee, established as part of the local government reforms in 1997, about twenty months after the end of the financial year. The PAC is chaired by a member of the opposition and has fifteen members. Accounting Officers, heads of executive agencies and other government institutions may be called to answer queries from the Committee. However, the Committee's recommendations are frequently ignored by Accounting Officers and there is no effective enforcement or disciplinary measures for non-compliance. Although capacity building measures and efforts to spread the workload of the PAC and LAAC might strengthen oversight, improved enforcement is ultimately dependent on political will.

During the course of the year, the quarterly report on Fiscal Developments compiled by the Ministry of Finance (Policy Analysis Division) is submitted to Parliament and serves as a mechanism for informing Parliament on the progress of budget execution. The IMF Public Expenditure Management mission noted that the quarterly report is compiled based on a disparate set of sources, raising questions about consistency. Therefore it should be seen as indicative.

Moreover, the quarterly report does not cover the development budget. There is no mechanism for informing Parliament during the budget year about the implementation of plans and performance against the previously stated sectoral targets.

A number of measures have been taken or have recently been announced that are intended to strengthen parliamentary scrutiny and authority over the budget and policy process:

- **Introduction of Sectoral Budget Committees.** In January 2001, the National Assembly revised its standing orders by establishing sectoral Budget Committees alongside the Finance and Economic Affairs Committee, thereby involving a larger number of MPs in the review of budget proposals and providing opportunities for more detailed scrutiny of agency Government proposals vote by vote.
- **Restricting the scope of executive virement.** Appropriations are voted at the level of the Ministry, and it is at this level that statutory compliance should be enforced. However, under existing procedures, the Minister of Finance may authorise the virement of funds between votes without prior parliamentary authorisation. The regulation of the 2001 Public Finance Act will close this loophole, enforcing the allocations approved by parliament. Restrictions may also be placed on Ministers authority to vire funds within votes, thereby strengthening the hand of the MoF and ensuring that allocations to subvotes are also enforced. This will help to protect specific poverty reduction programmes from in-year cuts.
- **Lengthening the temporal perspective.** Budget documentation submitted to Parliament covers only the budget year. There is no indication of proposed allocations, even in summary form, over the period of the MTEF. Recognising that forward estimates would provide a much sounder basis for the appraisal of fiscal policy and the financial implications sectoral policies, MoF has proposed to follow the practice of South Africa and Uganda in presenting indicative medium-term spending allocations in the budget books.
- **Presentation of Quarterly Execution Reports.** Parliament receives a quarterly report on budget execution from the MoF, similar to the report provided to donors financing the MDF. These reports provide an overview of macro-economic developments, together with summary tables on monthly and quarterly revenue collection and expenditures, related to estimates for the period.

### 7.3 The role of the media and Civil Society

Although government has not pushed a liberal agenda, the very existence of an opposition has given social organisations more room and opened possibilities for legislative change and relative freedom of press. ‘Most of these changes have not come from above. They have been appropriated by society itself, which has asserted itself against a weakening State’ (Tripp 2000:195).

The struggle between civil society organisations trying to argue their case, and government attempting to regulate them has been continuous. When government attempted to create an agency to monitor NGOs, the latter mounted a campaign to resist. Media workers opposed a media bill that would have curtailed freedom of the press. Members of the Tanzania Chamber of Commerce, Industry and Agriculture resisted government efforts to make it into an apex organisation. There were difficulties for new Trade Unions trying to gain autonomy and recognition, and government accused organisations of becoming ‘too political’ and advised them to concentrate on other activities, with the Minister of Home Affairs threatening that NGOs hostile to government could be deregistered (Tripp 2000:204). In 1997 government adopted a draft policy statement seeking to co-ordinate the NGOs’ activities and provide guidelines for transparency and accountability and to ‘ensure that NGOs programmes focus on their roles and objectives’, prompting fears that Government was trying to restrict their autonomy and lay claim to their resources.

In spite of this, the number of NGOs has increased very rapidly during the 1990s. 80% of these are women's associations often active in lobbying for legislation on land reform, changing rules of inheritance, and children's rights. Many NGOs started out as local organisations dealing primarily with local issues, but as they are getting more regional and national coverage some have been moving into overtly political issues. Civil society umbrella organisations were formed and lobbying organisations such as National Land Forum emerged.

Notwithstanding this recent expansion, civil society in Tanzania is still smaller and therefore plays a less influential role than, in say, Uganda, with only relatively few having made a tangible impact at the policy level. The Tanzania Gender Networking Project has been the most active NGO on budgeting issues, and has established a gender budgeting exercise with and inside the Ministry of Finance. Under the leadership of the Tanzania Coalition on Debt and Development and with the support of OXFAM, other NGOs have increased their advocacy for debt forgiveness and for a more poverty-conscious budget. The issue of timeliness of information from the government to the civil society groups remains a point of disagreement.

There are also few private sector business organisations. Temu and Due (2000) found around 100 registered business associations, most of which are underactive and/or underfunded. Even the most vocal ones such as the Tanzania Chamber of Commerce, Industry and Trade have had little impact on policy or civil service behaviour.

There is no formal mechanism for pre- and post budget consultation between government and farmers' representatives, public interest groups or labour unions. Through the consultative PER process, the business community, the Tanzania Gender Networking Project (TGNP) and umbrella NGO groups are consulted on the review of expenditures, which serves as an input into the budget. The donors are consulted during the PER process, notably to get an indication of future resources that they will make available.

Media coverage of budget, planning and poverty issues is patchy. This is despite the rapidly growing number of independent newspapers, radio and TV stations, and a large increase in circulation of independent press and a drop in sales of government owned journals. Starting with the first privately owned weekly in 1987, there are now seventy eight registered Swahili newspapers and 26 English language papers, including three main daily English newspapers and the two English financial weeklies (Tripp 2000). The number of private TV stations has risen from non to seven, and over ten daily and weekly independent journals were established over the reform period (Temu and Due 2000).

There tends to be relatively more coverage of poverty issues than of planning and the government budget. This is linked in part to the HIPC Initiative and PRSP process. Most of the analysis is non-critical. For example, while the Ministers of Finance on the Mainland and Zanzibar carry out pre-budget briefings, the actual budget coverage is dominated by straight reporting and commentary by Ministers and the private sector. The journalists themselves typically do not undertake any analysis of the budget, in part because their understanding of the budget process is weak.

Areas where the press has been challenging government include corruption, raising awareness on women's rights, children's rights and environmental issues. There have been occasions when government officials sought to intimidate press. For example, in 1997 the Tanzania Information Services warned that it would ban media if they published obscene articles or ridiculed public officials (Tripp 2000). The Newspapers Act makes printers liable for printing material that is seditious. And Government attempted to introduce a Media Council but journalists fought successfully against this, setting up their own Media Council to protect freedoms.

## 7.4 Consultation and participation

Civil society participation in the policy process is still a fairly new concept and arrangements for broader participation in policy formulation are still evolving. Civil society organisations have expressed dissatisfaction with previous arrangements. The PRSP process used primarily a workshop approach to solicit comments from a broader set of actors on the poverty reduction strategy. Zonal workshops involved villagers, councillors, district executive directors, and NGO representatives. Consultations were also held with members of Parliament, Regional Administrative Secretaries and development partners.<sup>24</sup>

Some civil society organisations were not satisfied with the limited extent of participation, and complained that the participation in the PRSP was more a 'token' than a real input, and that government was not fully prepared for participation.<sup>25</sup> The main criticisms of civil society organisations more generally centre on the fact that they were consulted late in the process, that their inputs were not adequately incorporated in the final PRSP, and that they would have wanted a more expanded discussion of alternative development strategies. Consultation with the legislature was perfunctory. For example, the consultation with Parliament was limited to one two-hour session.

However, any criticism must be tempered. First, the government seems to slowly be becoming more responsive to criticisms about consultation. Second, until recently consultation was limited by weaknesses (organisational and otherwise) among NGOs (see Evans and Nglawea 2000). Third, the NGO community is not monolithic, and encompasses a wide range of opinions.

Despite these reservations about the quality of consultation, the workshops and additional consultations appear to nonetheless have partly influenced the final PRSP. For example, the emphasis the PRSP placed on governance and the poor quality of service delivery was apparently strengthened as a result of the workshops. In addition, the proposed decision to abolish primary school fees in the 2001/2002 budget has been attributed in part to the discussion at the zonal workshops. And Parliament apparently introduced a greater concern for regional disparities than had previously existed in the PRSP.

As for the future, the proposed arrangements for poverty monitoring envisage significant participation. The October 2000 stakeholder workshop on poverty monitoring agreed to introduce regular Participatory Poverty Assessments as part of the poverty monitoring system. This will provide the poor with a chance to directly express their views on poverty. The poverty monitoring steering committee is expected to include a broad cross-section of representatives from civil society, academic/research institutions and the private sector.

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<sup>24</sup> Annex 1 of URT (2000) includes details of the consultative process for the PRSP.

<sup>25</sup> See Mbilinyi (2000) for typical criticism about the quality of consultation on the PRSP and also Evans (2000) for a view that places the criticism in context.



## 8 Conclusion

### 8.1 Recent poverty policy and poverty trends and analysis

Poverty reduction has been a principal goal of government policy in Tanzania for a long time, but has gained a new prominence over the last three to four years. It is the central goal of government's long term Vision 2025<sup>26</sup>, the National Poverty Eradication Strategy, and the draft Tanzania Assistance Strategy. These have provided the basis for the PRSP, which differs from the other poverty policy documents in that it focuses on the medium term, presents intermediate monitoring indicators as well as targets, is based on wider – though still limited – participation, and has stronger links to resources, including projections of the resource envelope and allocations in the MTEF.

Since the mid 1990s the composition of government spending has been changing in favour of priority sectors and priority items within these sectors, e.g. primary education and health, rural roads, agricultural extension. Expenditures in priority sectors have been largely protected due to an increase in grants and government's commitment to its priorities, though sometimes overall resources were not sufficient to prevent substantial shortfalls even in some priority sectors (e.g. in water). Nevertheless, the recurrent budget allocations to the social services increased from 3.5% of GDP in 1996 to 4% in 2000. This trend is projected to continue under the current MTEF. The priority sectors' share in total recurrent expenditure is planned to increase from 42.2% in 1999/00 to 61.6% in 2002/03, with the largest increases in health and education. The projected increase for priority items is even larger, up from 24.8% to 40.3% of total recurrent spending. Reallocation towards priority items is particularly significant in the roads sector (towards rural roads), and in health (towards primary health services). Government is committed to increase OC and development expenditures in the priority sectors. Budgeted allocations for other charges and development expenditures as a share of requirements of sector programmes are also projected to rise, from 84% now to 89% at the end of the current MTEF. These projections are somewhat optimistic, partly as much of this increase will depend on rising donor contributions.

However, due to only slowly rising revenue performance, the level of total government spending will continue to be low, and will be insufficient to finance the poverty-reducing activities identified in the PRSP. For example, a minimum health package would require around twice the resources going to health. HIV/AIDS will drain already stretched resources in education as well as in health. Similarly, current projected allocations are insufficient to fund universal primary education at current unit costs.

Poverty levels remain high, both for income and non-income indicators, despite successes in creating a stable macroeconomic environment conducive to poverty reduction policies. Indications are that the proportion of the populations below the food and the basic needs poverty line have increased over the last ten years. While poverty is concentrated in rural areas, it varies greatly across regions and is rising rapidly in towns and cities. The effect of economic growth on poverty reduction has been small, as recent growth has been strongest in sectors, such as mining and tourism, which have a limited impact on poverty reduction.

Whether and how changes in public expenditure have improved access to services is difficult to assess. Available data on service delivery and access tends to focus on coverage, rather than on access and use by income group, and there is little comparable data over time. Overall, the evidence points towards a decline in service delivery in the 1990s, caused by low levels of spending and

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<sup>26</sup> Vision 2020 for Zanzibar.

compounded by inequitable distribution and inefficient delivery. Declines in service delivery are borne out by trends in the main health and education indicators. Infant and under five mortality rates are on the increase. Primary school enrolment rates have fallen, partly as quality of education has deteriorated, which prompted parents to question the benefit of paying school fees. Latest indications suggest slight improvements in 2000. The abolition of school fees proposed in the PRSP is likely to sustain that trend.

Making public expenditure more poverty focused depends on the availability of poverty data. In Tanzania such data, while readily available, is scarce, particularly over time. Results from the 2000 Household Budget Survey will significantly improve quantitative poverty data. In the past, existing data has been insufficiently analysed, so that effectively policy decisions and resource allocations had to be made without a sound analytical base. Qualitative information on poverty is also scarce. Information on the priorities and problems of the poor was collected through a PPA in 1995. However, the final report was not very widely distributed, and is not routinely used in policy decisions. While there were some early attempts to integrate PPA results into policy making, there is little reference to the results in government policy documents. During 2001 the preparation process for the Poverty Monitoring Master Plan has brought together producers and users of data, which has helped to integrate surveys and analysis with the government planning process. This is making poverty information more relevant for users, and hence is helping to strengthen the link between poverty issues and policy decisions.

## **8.2 Public expenditure management reforms & their effect on budget reallocation**

A number of public expenditure management reforms and initiatives have facilitated a greater poverty orientation in the government budget by creating greater transparency and accountability. Government and staff in priority agencies are clearly committed to the PER process. It provides an effective mechanism for donor government consultation, and ensures external transparency of policy and implementation. In the absence of alternative internal reporting and monitoring mechanisms the PER has also become the means by which Government monitors implementation of public expenditure and assesses its effectiveness. Currently, the reliance on external consultants for much of the analysis stands in the way of fully internalising the PER in government. Similarly, outside involvement precludes the PER from including more sensitive sectors. Nevertheless, the PER has become an integral part of the MTEF process.

The MTEF has strengthened the link between policy and resource planning, and has been instrumental in increasing the share towards priority sectors and items. It has introduced an incentive for agencies to identify savings, and a means of assessing the trade-offs between alternative uses of funds within and between sectors. However, while the PRSP and the MTEF share the main priorities, continued efforts are needed to ensure full consistency between the PRSP targets and sectoral targets in the budget submissions.

Existing Sector Programmes have helped to start the reallocation process within sectors. However, in their early stages they tended to operate without a firm resource constraint, and suffer from not sufficiently linking policy objectives and expenditure. For instance, there are disjunctions between PRSP priorities and some sectoral strategies. Some sector programmes have also found it difficult to make choices between priorities and to outline the precise role of government in the sector. Furthermore, strategic prioritisation is severely hindered as central records of external sector funding are patchy.

Further strategic reallocations have been limited by a number of factors:

- A significant proportion of expenditure was either inflexible, such as personnel, and therefore not available for reallocation, or off-budget altogether. Much of development expenditure, donor funds, the Road Fund and direct supplies of materials to service units are programmed outside the MTEF. This seriously undermines the ability to impose a hard budget constraint, and therefore does not encourage prioritisation. External assistance, for instance, dominates some priority sectors (e.g. water), but as much as half of aid is still outside the annual budget. The poor coverage of development assistance, both in terms of reported disbursements and planned commitments, remains a major handicap for strategic resource planning, particularly for the development budget. Concerted efforts to integrate personnel and development assistance into the MTEF have started in FY01, and are likely to contribute to the shift in expenditures towards priority sectors and items projected for the medium term.
- The revised chart of accounts introduced in the FY98 budget allows for an administrative, functional, territorial and economic classification of government expenditure. So far, however, the budget is prepared only under administrative and economic budget classifications. This limits the extent to which multi-dimensional poverty expenditures can be planned strategically. However, the Ministry of Finance is in the process of finalising a detailed functional classification of the budget. In conjunction with the computerised budget management module this will allow detailed multi-dimensional analysis and budget monitoring.
- The new chart of accounts also provides new performance budgeting codes. While these have significantly increased transparency, they are only applied to the recurrent budget. This makes it difficult to gain an overview of the structure of public spending.
- There is a lack of integration of recurrent and development budget. The performance budget approach is applied primarily to the programming of Other Charges. Some agencies are beginning to integrate personnel costs as well, but most continue to treat them as fixed overheads. The methodology for performance budgeting specifically excludes development expenditures.
- Government has also found it difficult to control commitments outside the budget (including liabilities of public enterprises), and to prevent the build up of arrears. This effectively softens the budget constraint and undermines the strategic allocation process.

The link between allocations and policy goals has been strengthened in the budget preparation phase. Under the MTEF, MDAs have to prepare activity based budgets which link resource allocations to outputs. While in principle this helps to improve the focus on priorities, the selected performance budget approach is technically ambitious in the light of weak capacity in MoF and in the executing agencies. It produces large amounts of information, which make it difficult to interpret the links between activities and output targets. This threatens to undermine the rationale of the performance budgeting process. Several agencies have found it difficult to formulate meaningful quantifiable targets, defining activities that contribute to outputs, and costing and programming these activities for the medium term.

Similarly, excessive detail on performance budgeting in the MTEF submissions can overwhelm decision makers. The level of detail makes it difficult to take in the information or to concentrate on strategic analysis. The agency performance reporting system is more suited to the requirements of agencies' internal management than those of the MoF and oversight bodies. The operational nature and the large number of targets set mean that reports from agencies reveal little about what outcomes have been achieved. Most of the MTEF reports prepared in FY00/01 did not clearly set performance against the original targets in a manner that would facilitate analysis by MoF.

### 8.3 Budget execution

The key problem during budget execution is the poor predictability of resource flows. The experience in the mid 1990s supports the hypotheses that poverty programmes get squeezed where budget discipline is weak. When the fiscal situation tightened, with revenue per capita falling, rising debt service costs and the build-up of arrears, salaries took precedence over other recurrent charges and development expenditure. Critical expenditures were squeezed out by an overextended base with large personnel expenditures and other, non-critical expenditures, such as student welfare and government vehicles. This confirms that predictable and effective poverty reduction expenditure depends on strict budget discipline.

The introduction of the cash budgeting system has been successful in restoring overall fiscal balance, but it has also affected the predictability of budget allocations and more fundamentally the credibility of the budget. Resource allocations under the MTEF give only an approximate picture of actual disbursements. Various types of within-year reallocations undermine some of the reallocations of planned expenditure. Within-year cuts and reallocations under cash budgeting mean that the predictability of resource flows is a major problem, particularly for OC and development expenditure, even in priority sectors. In the last fiscal year there have been some improvements in the predictability of cash flow with the move towards quarterly, rather than monthly, indications for treasury releases for the main priority sectors, but the perception is that the annual budget is indicative at best. This is supported by the expenditure tracking studies, which find that outturns differ substantially from budgeted allocations. These differences reduce agencies' incentives to produce realistic budget, negatively affect operational planning, and limit parliamentary oversight. The introduction of the IFMS is beginning to tackle some of these problems. However, rolling out the financial management system is only one step towards improving performance budgeting and strategic allocation.

Reallocations also take place outside the regular budget cycle as part of the political process: partly as a result of new Cabinet decisions, and partly due to the power of individual Ministers. Some sectoral Ministries are concerned that the budget has become a purely academic exercise, with budget allocations at best giving an indication of the resource that will actually be available over the fiscal year. This undermines not only the credibility, but also the efficiency and effectiveness of the public expenditure management and public service delivery.

Within-year reallocations also occur at district level. Expenditure tracking studies find substantial reallocations between sectors at district level, partly due to lack of communication of priorities, partly due to lack of supervision and accountability. Local authorities are taking over responsibility for many of the key poverty expenditures, but their accounts are not aggregated which makes it difficult to assess the trends in the sectoral composition of this important part of government spending.

### 8.4 Other public sector reforms

Commitment to the whole reform package is not very strong, partly as a consequence of limited political benefits generated by previous reforms. There is a perception that they have brought pain, but no gain in the form of improved service delivery.' 'Quick wins' are necessary to mobilise and maintain support for the reform agenda. Co-ordination between different reforms has proved difficult. Some have moved faster than others, but interdependence means that gains from one reform are limited by lack of progress in other reforms. For example, performance budgeting is unlikely to lead to better poverty impacts of public expenditure in the absence of clear agency roles.

Problems with public service reform have been compounded by large number of reform initiatives within core government, in the sectors, and at local government level.

The civil service continues to suffer from low levels of pay and 'indirect' non-transparent ways of paying salaries. In the early 1990s, 75% of civil servants' salaries were below the poverty line, so they either had to turn to informal employment, or had to seek payments for services, with both options leading to reduced efficiency and effectiveness of public service delivery, and more fundamentally, leading to an erosion of public sector practice and accountability. In order to recruit and retain senior staff, allowances were introduced to cushion senior staff wages, but these are non-transparent, inequitable and unmanageable. They also caused problems for budget planning, as significant parts public sector pay were drawn from budget lines that were ostensibly for operations and maintenance. This crowding out of operations and maintenance further undermined the delivery of public services.

It is very difficult to improve accountability if the civil service reform programme and the medium term pay policy do not produce sufficient results. Wages in the public sector remain below comparable ones in the private sector and NGOs. The only sustainable solution to government is to further reduce the size of the state in order to increase average salaries, particularly for low and middle management which have been left behind, although they are crucial for improving public service delivery.

Government's institutional framework for poverty monitoring has been weak. The National Poverty Eradication Division in the Vice President's office is nominally responsible for poverty monitoring, but has neither the operational responsibility and influence (as does the MoF), nor sufficient internal capacity to fulfil its function. These shortcomings have hindered the mainstreaming of poverty in the budget process.

Decentralisation is central to government's strategy to improve services and reduce poverty. Increasing resources and responsibility for priority service delivery are transferred to local authorities. However, decentralisation is unlikely to support poverty reduction without clear accountability and reporting on the use of funds which would enable central government and local communities to monitor local authority spending flows. Increased budgets alone will not significantly improve service delivery outcomes, as under the current system between 40 and 90% of OC grants for education and health are diverted to other uses. For decentralisation to have the desired impact on improved service delivery and poverty reduction, agency managers will need to have greater autonomy in expenditure management, while central agencies move towards accounting and internal auditing functions. Currently, however, reporting and accountability structures are insufficiently developed. District reports are not aggregated at regional level for oversight at central level, and are not sufficiently accessible to communities for supervision at local level. In longer term, LGRP aims to improve participation and accountability to users, which will be a key force in strengthening the poverty orientation of the budget.

## **8.5 Strengthening oversight and consultation**

Parliament's role in allocating and monitoring public expenditure is weak. It only intervenes in the budget process only a month before the start of the budget year. Discussion then focus on details of agency proposals, rather than broad policy issues, which are obscured by detailed presentation of the budget estimates and the limited information available on agency performance. Although the MTEF covers a three year period only a single year budget frame is presented to Parliament for debate and approval. There is little connection between the presented budget figures and public sector performance. There is no mechanism for informing Parliament during the budget year about

performance against the budget, as quarterly reports are based on disparate sources and are only indicative.

Scrutiny over actual expenditures is even less effective than scrutiny over budget proposals. Basic systems of expenditure control and accountability are improving, but from a low standard. Parliament's role to oversee budget execution is severely limited as too many Ministries submit insufficient or no accounts. Too many expenditures are improperly vouched for, or not at all. Over a quarter% of total expenditure was embezzled in FY99. PS Finance is on the same level as other Ministries' Chief Accounting Officers, and thus can not exert sufficient influence over compliance. Tracking of poverty expenditures to date only takes place through occasional expenditure tracking studies. Audit reports are not produced on time. They do show low compliance with financial regulations. However, the audit reports have resulted in very little follow up action in the form of prosecutions or dismissals. Parliamentary scrutiny is weak, and increasing donor pressure to improve audit and accountability has produced few results as yet. The legislature's oversight could be strengthened by presenting MTEF ceilings to parliament at the beginning of the budget planning cycle, i.e. at a time when overall priorities not yet set, and by ensuring timely quarterly expenditure reports to enable the legislature to properly track performance and verify compliance.

Effective public sector reform programmes and public service delivery are associated with a culture which identifies and helps solve problems, rather than punishing those who reveal them. The culture of the public sector in Tanzania is less open than in, for example, Uganda. There is a limit to tolerance of government criticism. Whistle blowers are not necessarily punished, but information is often not used, providing no incentive to identify problems. Corruption continues, especially at the high level.

Independent reporting has done little to change the poverty focus of public expenditure. The number of independent newspaper, radio and TV stations exploded in recent years, but most suffer from a lack of understanding of public expenditure processes. As a consequence, the media mostly restricts itself to straight reporting of budget issues, rather than investigating the budget in any detail. Similarly, independent and open monitoring of public sector resource flows has been ineffective. The results of the 1998 expenditure tracking study were made available, but this did not lead to any noticeable improvement in the proportion of funds reaching service units in the 2001 expenditure tracking study.

The democratisation process over the 1990s has meant that government is getting more responsive to a weak, but strengthening civil society. Participation by civil society and the poor in the policy process and in monitoring activities has been limited, but is growing slowly and is starting to have an impact in some specific areas, e.g. resulting in the abolition of primary school fees, and raising concern for regional disparities in the PRSP. However, overall participation in the PRSP consultations was regarded as insufficient by civil society representatives involved. Participation in public expenditure management decisions, specifically, is very much in its infancy, and it is too early to assess its impact on the poverty focus of public spending.

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## Annex 1 : Research Hypotheses and Commentary on Tanzania experience

Hypothesis	Evidence/Criteria
<b>1. Institutional Framework</b>	
Public expenditure more effectively addresses poverty where poverty reduction is consistently emphasised in leadership speeches, statements, actions.	Poverty reduction has been a principal goal of government policy for a long time. A multitude of policy documents published in the last three years (NPES, Vision 2025, PRSP, TAS) have re-emphasised this goal, and are trying to better operationalise it. At the same time, poverty has not been given the same status in speeches and government statements that it has in other countries, e.g. Uganda.
Poverty programmes get squeezed where budget discipline is weak. Parliament, Cabinet unwilling to prioritise	Fiscal control weakened in the mid 1990s, with revenue per capita falling, rising debt service costs and the build up of arrears. When the fiscal situation is tight salaries took precedence over other recurrent charges and development expenditure. While recently OC for priority sectors has been protected, they still experienced cuts, which sometimes were very large (e.g. in the water sector).
Hard budget encourages prioritisation	The ability to impose a hard budget constraint is limited by around 50% of donors funds being off budget, and by personal emoluments being decided separately. Government has also found it difficult to control commitments outside the budget (including liabilities of public enterprises), and to prevent the build up of arrears.
Credible budget planning requires reasonable budget predictability	Deficits only stopped with the introduction of the cash budgeting system, a drastic way to enforce discipline, which has disrupted operations of department, and therefore service delivery. The predictability of budget allocations is very low and the credibility of the budget has suffered. Cash releases are far below budget even in some priority sectors; particularly for development expenditures. There have been some improvements in the predictability of cash flow with the move towards quarterly, rather than monthly indications for treasury releases for the main priority sectors, but the perception is that the annual budget is indicative at best. This is supported by the expenditure tracking studies, which find that outturns differ substantially from budgeted allocations.
National priorities more likely to be observed if allocations reward budgets prepared in line with them.	The composition of expenditure has changed significantly in favour of priority sectors and items. However, education has been unable to finalise a sector programme, primarily because it has not managed to prioritise expenditures in a way that is compatible with its overall budget ceiling.
Medium term budget framework supports a more planned pattern of resource allocation.	The MTEF has been a key tool in reallocating public expenditure towards priority sectors and priority items. Their share in total government expenditure is rising sharply over the medium term.
Broader budget coverage (including donor flows) supports more pro-poor distribution, with donor dialogue playing a positive role.	External assistance is very important for the budget as a whole, and dominates some priority sectors (e.g. water). However, as much as half of aid is still outside the annual budget, in some sectors up to 90% of the development budget is externally financed. This makes strategic resource planning and more pro-poor distribution very difficult. Moreover, recurrent and development budgets are not integrated and continue as parallel processes.
Incentives for careful budget preparation will improve focus on priorities.	Under the MTEF MDAs are to prepare activity based budgets in terms of sectoral strategic objectives and activities needed to implement them. But monitoring of whether funds were spent according to objectives is difficult, as current financial reporting is still based on line items. Departments also still have the option to attract external funds outside the budget. Access to additional funds reduces the incentive prioritise expenditures in their budget submissions.
Budget centres will not offer savings unless given some incentive to do so, e.g. a hard budget within which they are free to prioritise.	Personal emoluments are treated as fixed costs (at least in the medium term), although they often constitute the largest share of expenditure. This limits the extent to which expenditures can be reprioritised. From experience MDAs know that disbursements will be lower than allocations. Hence, any potential savings that may be offered would not be returned to them, but instead would go towards reducing the overall deficit.
Failure to pay living wage broadly competitive with private sector erodes all aspects of expenditure effectiveness, including poverty.	This is a fundamental problem. Salaries continue to be considerably lower than in the private sector and in NGOs, despite some earlier efforts at civil service reform (which have since stalled). Civil servants often need to supplement their income from other sources. Problem of recruitment is particularly acute in rural areas, although there is a surplus of unemployed teachers in urban areas. LGRP plans to let district authorities set their own (higher) salaries and recruit their own staff. Not clear whether this will be accepted by MoE and the unions.
Pay alone is insufficient to effective PE unless performance is also recognised, and rewarded or sanctioned.	Performance related pay is being introduced, but only for 3000 senior officials.
Decentralised Budget management only supports poverty reduction if supported by accountability for	Reforms in the disbursement of grants to local authorities (now sectoral allocations are paid into sectoral bank accounts at district level) mean there is less scope for reallocation

<b>Hypothesis</b>	<b>Evidence/Criteria</b>
results to policymakers or the community	between sectors. However, reporting and accountability suffer as district reports are not aggregated at regional level for oversight at central level, and are not sufficiently accessible to communities for supervision at local level. In longer term, LGRP aims to improve participation and accountability to users.
Timely accounting and audit reports with effective scrutiny and follow-up promote more effective public expenditure programmes.	Audit reports are not produced on time, but they do show low compliance with financial regulations. However, the audit reports have resulted in very little follow up action in the form of prosecutions or dismissals. Parliament scrutiny is weak. Increasing donor pressure to improve audit and accountability, but few results as yet.
<b>2. Information &amp; Analysis</b>	
Poverty information is more policy effective when needs discussed with users.	Not very effective discussion of needs in the past, so hard to assess. The preparation of the new draft Poverty Monitoring Master Plan has brought together producers and users of data. The new plan aims to integrate surveys and analysis with the various planning processes.
Analysis commissioned by Government is more likely to be used.	Public expenditure and poverty analysis takes place through the sectoral government donor working groups of the Sector Programmes. Prior to the sectoral PERs there was little information and analysis of public expenditure outturns and outcomes.
In-house poverty analysis on demand is more effective than reliance on donors.	Weak capacity within government means little analysis is carried out within the civil service. Most local poverty analysis is carried out by a limited number of local researchers. The nominally main government poverty unit is in the VP's office, outside of MOF and removed from budget decision making, and suffers from low capacity.
Brief summaries and presentations reach policymakers, reports do not.	A very large and increasing number of (external) reports exist in the area of public expenditure management, macroeconomic management, and poverty strategies. Simply digesting this information would tie up considerable capacity. Similarly, activity based (performance budgeting) MTEF submissions contain excessive detail, but do not lend themselves to strategic analysis.
Poverty focus of Government is positively associated with awareness of both Government and public of poverty issues.	PRSP not very participatory. Very limited dissemination of the documents. Even key staff in sector Ministries were unaware of the detailed contents of the PRSP. Similar outside of government. At the same time information about poverty is being made available. Preliminary findings of the 2000 HBS were presented, and the full results are likely to stimulate discussions about poverty trends and analysis, which can only strengthen government's poverty focus.
Effective programmes are associated with a culture which identifies and helps solve problems, rather than punishing those who reveal them.	More closed government culture, than in e.g. Uganda. Limit to tolerance of government criticism. Audit reports not acted upon. Few parliamentary questions of budget performance (initial allocations are discussed more closely, though still not very aggressively). Continuing corruption, especially at high level.
<b>3. Participation</b>	
Poverty focus more likely where Government collects information on priorities & problems of poor	Initially the 1995 PPA was part of the dialogue with the IFIs, and has helped to introduce participatory approaches. However, the final report was not published for another 18 months, and was not very widely distributed, and is not routinely used in policy decisions. While there were early attempts to integrate PPA results into policy making, there is little reference to the results in government policy documents.
Transparency of Information on service standards, budgets, staffing, charges improves service access and quality-	Service delivery standards are still being worked out as part of the Local Government Reform Programme.
Especially when Complaints are encouraged, facilitated, acted on	No culture of encouraging or facilitating complaints.
Independent, open monitoring promotes improved poverty focus	Transparency of releases has not increased the proportion of funds reaching service units between the 1998 and the 2000 expenditure tracking study.
Participation of the poor or their representatives in PEMS decisions improves poverty focus .	Little participation beyond token involvement of civil society representatives in the PRSP. Participation in budget decisions also limited, though the Gender Budget initiative is an exception.