FISCAL ASPECTS OF PRSP IMPLEMENTATION IN TANZANIA
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Introduction

This case study aims to assess to which extent the national budget process reflects the principles and content of Tanzania’s poverty reduction strategy, hence providing some insight into progress in PRS implementation. The budget and, more broadly, fiscal issues, lie at the heart of PRSP implementation. The budget articulates more clearly than any other policy instrument a country’s priorities and few policy reforms can be enacted without proper budgetary management and implications for resource allocation. Therefore, analyzing budget management processes and budgets themselves is a good lens through which to assess progress toward PRSP implementation.

The case study also aims to assess whether the PSRP approach itself has fostered more efficient and pro-poor budgeting in Tanzania, hence contributing to assessing the “value added” of the process in the fiscal realm. The emphasis of the PRSP process on results-orientation, openness and transparency, participatory policy-making, poverty reduction, and alignment of donor support with country-owned strategies and policies, provides good entry points for improved public expenditure management. Since many of the building blocks necessary for successful PRSP implementation were in place in Tanzania before the advent of the PRSP process, however, evaluating the value added of the process needs to take this into account.

The paper is structured as follows. The rest of the introduction looks at initial conditions and Tanzania’s PRSP. The next sections review: a) data production, availability and use and results orientation of the budget process; b) open and participatory nature of the budgeting process; c) pro-poor budgeting—do budget allocations reflect PRSP priorities?; e) partnership and donor alignment to the PRSP?. The final section draws some conclusions.

Initial Conditions--Tanzania’s Focus on Poverty Reduction Before the PRSP Process

Tanzania’s focus on poverty reduction dates back to independence. As expressed in the 1967 Arusha declaration, President Nyerere’s economic strategy aimed to eliminate three development enemies: “ignorance, disease and poverty.” A key underpinning of this strategy was to ensure that basic social services were available equitably to all members of society. Great strides were made in some sectors, such as education and health. However, poor structural policies hampered the positive impact of investment in social sectors on growth and poverty reduction.

In the 1980s, terms of trade deteriorated precipitously and economic growth and tax revenues declined accordingly. As a consequence, the Tanzanian government encountered serious difficulties in financing existing social services while declining incomes further undermined the living standards of the poor. Moreover, government
attention shifted to the urgent issue of macro-economic stabilization and, in the process, public expenditures were slashed causing the quality of most social services to deteriorate dramatically.

With the return of macro-economic stability and growth in the mid-1990s, the Tanzanian government was able to once again focus on poverty-reduction. Following its commitment at the 1995 Social Summit in Copenhagen, Tanzania developed Vision 2025, a “national vision of economic and social objectives to be attained by 2025.” To implement this long-term vision, a committee of experts elaborated a draft National Poverty Eradication Strategy (NPES) in 1998. The draft was discussed in a participatory process featuring zonal workshops with participants drawn from central and local government and CSOs. Two other workshops were organized for the donor community and for Members of Parliament. The NPES reflects a multi-dimensional concept of welfare and poverty, identifies priority areas and establishes goals and targets in these areas which were further developed in the 1999 Poverty and Welfare Indicators. The NPES also establishes the broad outlines of a monitoring and evaluation system and the Poverty and Welfare Indicators identifies the level of government at which data for each indicator is collected as well as the means and frequency of the collection.

During 1999, the Tanzania Assistance Strategy (TAS) was developed with the aim of improving donor coordination and partnership with the donor community. The TAS spells out principles for the collaboration of government and donors intended to enhance country ownership, efficiency, and effectiveness of foreign aid. In particular, it encourages the integration of aid into the government’s budget process and the use of government systems, rather than the establishment of parallel donor-financed structures. In this context, an Independent Monitoring Group (IMG) has been tasked to conduct annual reviews. The IMG consists of local and international experts and represents the institutionalization of previous ad hoc reviews of the partnership.

Therefore, by the time the PRSP process came about, Tanzania already had in place: a) a long-standing tradition of public policy focus on poverty-reduction; b) a relatively strong tradition of government openness to the participation of civil society; c) a National Poverty Eradication Strategy validated in participatory workshops and indicating priority sectors and goals and indicators in these sectors; d) a participatory public expenditure review process (including government, donors and civil society) attempting to extend participation to the budgeting process; e) the skeleton of a monitoring and evaluation system (though existing on paper more than in reality and with very weak poverty data); and e) donor commitment to improved coordination and alignment with country-owned priorities. In this context, what the PRSP process could contribute would center mainly along five lines: a) a stronger link between the participatory process and PRSP-identified priorities; b) institutionalized participation in policy-making and in PRS monitoring; c) donor commitment to improved coordination and alignment with country-owned priorities. In this context, what the PRSP process could contribute would center mainly along five lines: a) a stronger link between the participatory process and PRSP-identified priorities; b) institutionalized participation in policy-making and in PRS monitoring; c)

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3 The OECD’s Development Assistance Committee, a donor coordination mechanism, also serves as a peer pressure mechanism for working within agreed principles of partnership.
stronger links between PRS priorities and resource allocation facilitated by the participatory public expenditure review process through its link to the PRS; d) a more developed and well-functioning monitoring and evaluation system with stronger feedback loops into policy-making; and e) expanded donor support of Tanzania’s poverty-reduction strategy. The section devoted to contributions of the PRSP process to pro-poor public expenditure management will attempt to assess to which extent these promises have been delivered.

Tanzania’s PRSP

Tanzania’s PRSP was derived from a participatory process organized through seven zonal workshops covering all regions of mainland Tanzania (Zanzibar carried out its own process). Each district sent four villagers, one district councilor, one town councilor, and one district executive director as well as five NGO representatives to every zonal workshop. In total, 804 citizens participated, 22 percent of whom were women. Issues discussed in the process included definition, causes and characteristics of poverty, indicators of poverty, and identification of priority areas for government action for poverty reduction. The zonal workshops ranked priority areas and these priorities were later aggregated at the national level and reflected in the PRSP document.

Tanzania’s PRSP has three main goals4: i) reducing income poverty; ii) improving human capabilities, survival and social well-being; and iii) containing extreme vulnerability among the poor. To achieve these goals, the strategy identifies the following pillars for government action: a) income poverty (with a focus on: macro-economic stability, rural sector development and export growth and private sector development); b) human capabilities, survival and well-being (with a focus on education, health, social well-being/improved access to justice, vulnerability and environment). The main areas of “priority expenditure” derived from the participatory process and are identified as: i) education (notably at primary school level); ii) health (primary health care); iii) agriculture (research and extension); iv) roads (in the rural areas); v) water; vi) judiciary; and vii) HIV/AIDS.

The PRS identifies specific poverty reduction targets covering both income and non-income dimensions of poverty and it spells out strategies to achieve these objectives. Public expenditure is a key instrument for the effective implementation of the PRS and the achievement of its goals. The PRS focuses on three main areas of outcomes and actions for realizing them. The first is reduction in the breadth and depth of income poverty. The outcome targets include reduction of basic needs poverty and food poverty, with a particular focus on rural areas, where poverty is most prevalent. The second area is that of improving the quality of life and social well-being. This entails improved human

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4 The overall goal of the strategy is poverty reduction. The reduction in income poverty is to be achieved through economic growth, which is targeted at a yearly rate of 6 percent and at 5 percent in the agricultural sector. The strategy initially covered the 3 years comprised between 2000-2003, but it envisaged its extension through a rolling process until 2010. The PRSP estimated financing requirements for the first three years of implementation at some 1.9 trillion TShs ($2.4 billion), one third of which was expected to come from domestic resources and the remaining two thirds from external financing.
capabilities, enhanced longevity and survival, social inclusion and personal security, improved nutrition, and containment of extreme vulnerability (mainly through social safety nets). The third broad area concerns sustaining an environment that is conducive to development, which encompasses macroeconomic stability and good governance.

**PRSP Dissemination.** The Tanzanian government’s Vice-President’s Office has carried out one of the most comprehensive campaigns of PRSP dissemination anywhere. Among other activities, the campaign broadly disseminated the goals, targets and key policies of the PRS as well as progress in their implementation and results. Jointly with a local NGO, the Vice-President’s office published summarized versions of the PRS, the PRS monitoring master plan and the first PRS progress report in Swahili. Unfortunately, the second PRS progress report—containing important information regarding stagnation in income poverty as revealed by the 2002 household survey and a significant shortage in funding for priority sectors to be able to achieve PRS goals—has not been translated and summarized. It is, however, public and available through the internet as well as from the Vice-President’s Office upon request.

The Vice-President’s Office is also planning to set up a PRS monitoring website and documentation center. Publication of summarized reports on the evolution of key inputs and outputs by sector would further enhance the government’s dissemination strategy by allowing public scrutiny of the relationship between these two variables and spurring debate on issues of efficiency of public expenditure, in particular in priority sectors.

Up to 1996, Tanzania’s public expenditure management system was very weak. Starting in 1996, with the beginning of President Mkapa’s government, a series of reforms were undertaken that have dramatically improved public expenditure management in Tanzania. These reforms featured the establishment of a cash budget system to buttress macroeconomic stabilization, budget classification reforms (introduction of the IMF’s GFS classification), an integrated financial management system, a medium term expenditure framework, performance-based budgeting and civil service reform accompanied by performance budgeting. As a result, Tanzania’s public expenditure management system is now recognized as one of the best in Africa. All these reforms were initiated before the advent of the PRSP and this case study will attempt to assess whether the PRSP process has contributed to their development and consolidation as well as to their pro-poor focus.

**Data Production, Availability and Use and Results Orientation of the Budget Process**

The PRSP process has focused public attention on the role of data. Measuring results and effective participation in the implementation, monitoring and evaluation of poverty-reduction strategies—two key pillars of the PRSP process—hinge crucially on the public availability of timely and reliable data. In the fiscal area, the role of data is two-fold. On the one hand, fiscal data is a key source of information for any assessment of whether budgets reflect PRS priorities and, more broadly, for stakeholders to be able to effectively hold government accountable. On the other, other poverty data (income poverty data,
social indicators and results from service delivery surveys in particular) is an essential component of evidence-based fiscal policy-making. We will look at this two dimensions of the role of data in turn.

Tanzania presently scores high in the front of data production, availability, and dissemination, regarding both fiscal and poverty data. Fiscal data is available in economic, program, and functional classifications as well as by geographical area (region and district).\(^5\) The introduction of GFS coding, still incomplete for the development budget, will further strengthen the quality of data available and allow its international comparability and its consistency with IFMS.\(^6\) A Fiscal Transparency review by the IMF highlights progress in enhancing fiscal transparency through the implementation of various reforms in recent years.\(^7\) These include the implementation of the Integrated Financial Management System, the government-led, participatory PER/MTEF process, the enactment of a new legal framework for fiscal management and procurement, enhanced controls on commitments and expenditures, and the quarterly publication of the amounts and timing of budget transfers to spending agencies and local governments.

The assessment also acknowledges recent efforts to institute quarterly reporting of revenue and expenditures by sub-national governments and to make these reports public, and the requirement of the national anti-corruption strategy that each ministry report and publish corruption cases. To further enhance fiscal transparency, the ROSC recommends that the Tanzanian government focus on the establishment of a sound legal framework and of rules and regulations governing the relationship between different levels of government for fiscal management in light of the ongoing decentralization process. The report also recommends that budget documents provide data on public debt, financial assets, contingent liabilities, and tax expenditures.

The Ministry of Finance aims to publish quarterly fiscal data on its website\(^8\) and local authorities are mandated to post up quarterly reports on budget implementation for scrutiny by the population. Moreover, the participatory nature of public expenditure reviews provides a forum for government representatives, the donor community and civil society to engage in the analysis and discussion of available data, including the government’s budget guidelines which define fiscal strategy and priorities for the coming year.

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\(^5\) The GFS-compliant functional classification—although developed—is not being used. The application of IFMS could be made more effective by adopting GFS-based functional classification and by generating relevant reports for economic analysis (PER 2003).

\(^6\) Though there have been considerable improvements in the financial management and accounting systems since the introduction of the IFMS, almost all sector PERs indicate that there is unreported expenditure, mostly foreign financed expenditures at the local level. The implication of these statements is that the real magnitude of sector expenditures are not yet fully accounted for. There is thus an urgent need to strengthen the IFMS and extend it to local government.


\(^8\) In August 2003, information from October-December 2001 and up to April-June 2002 was officially posted on the Tanzanian Finance Ministry's home page. However, when one clicked on the links, none of the pages were available.
Significant progress in engendering development policies had taken place in Tanzania before the advent of the PRSP due to government support as well as active involvement of civil society organizations such as the Tanzania Gender Networking Program. The PRSP process provided added impetus to this process through the establishment of gender disaggregated targets in the education and health sectors, the development of a national strategy for gender and development and the inclusion of gender experts in the PRS technical working groups. Moreover, terms of reference for mainstreaming gender into the participatory public expenditure review have been drafted. These terms of reference include the development of tools and gender-training activities to support planners and budget officers in priority sectors and the Ministry of Finance mainstream gender in the budget process.9

Box 1: Gender Budgeting in Tanzania

Tanzania’s Gender Budget Initiative (GBI) was launched in 1997 by the Tanzania Gender Network Programme (TGNP), a national NGO. The aim of the initiative was to have the national budgeting process take account of gender considerations so as to reach and benefit both genders on a more equal basis. The initiative has increased government awareness of the importance of taking account of the interests of women in the budget allocation process10 and it has exposed some of the gender gaps in the budgeting process, from the identification of sectoral priorities to the design of the budget guidelines. Research and advocacy activities were planned around the national budget cycle in such a way that findings could influence the debate of the budget in Parliament.

The initiative was further strengthened by the PRSP process. Gender inequality was identified as one of the main concerns of participants in the zonal workshops and TGNP, jointly with other NGOs, highlighted these results in their advocacy work, including the need for it to be tackled in the PRSP. As a result, the government adopted a set of gender-disaggregated indicators in the PRSP (in particular in the health and education sectors). Also as a result of the initiative, the Ministry of Finance provided guidelines for mainstreaming gender into the 1998/9 budget and gender budgeting was introduced for the first time in fiscal year 2000/01 after successful training of budget technicians from six ministries. From fiscal year 2001/02, all ministries, departments and agencies (MDAs) were directed to take into account gender concerns in their budgets. The real impact of this decision, however, still remains to be evaluated.

The PRSP process has heightened the importance of poverty data and the use of this data in policymaking. For example, the Tanzanian government is currently using data from the recent household budget survey and census as well as analysis from its poverty monitoring system to elaborate a poverty map as well as a fiscal transfer system that would take account of regional diversity in poverty and social indicators.

10 In 1999, the TGNP published the GBI findings in a publication entitled "Budgeting with a gender Focus".
Definition of priority expenditures. Monitoring progress in PRSP implementation is highly contingent on the ability of all stakeholders to track the evolution of expenditure on “priority” areas. Monitoring of priority expenditures, however, is constrained by changing definitions, limited information on local government expenditure as well as on some donor funding not yet channeled through the budget, and incomplete GFS classification of the development budget. Indeed, the budget lines corresponding to programs and activities defined as “priority” in the PRS have not been reported in a consistent format in the government’s budget guidelines, the budget itself, budget execution figures and PRS progress reports.

In the PRSP, priority expenditures are defined as comprising: (i) education (notably at primary school level), (ii) health (primary health care), (iii) agriculture (research and extension); (iv) rural roads; (v) water, (vi) judiciary; and (vii) HIV/AIDS. In this paper, we will refer to these expenditures (e.g. expenditure on primary education) as “core priority expenditures” while the broader sectors where these expenditures belong (i.e. education) will be referred to as “priority sectors.”

The definition of priority sectors in the budget guidelines, however, differs from those in the PRS in that anti-corruption is also included. The FY03 budget guidelines also added energy as another “important sector” to the spending priorities. Finally, the FY04 budget guidelines expand the set of priority expenditures to include energy, lands, police, and prisons.11

Stakeholders interviewed for the elaboration of this case study had not been involved in and were unaware of the criteria used and the process followed in the decision-making processes leading to these successive expansions of the definition of “priority sectors.” The PRS should be a living document. However, due process and the use of data and analysis in its modification are fundamental to maintaining the credibility of the PRS, of its participatory and transparent nature and of the commitment of the government to its implementation. Therefore, the addition to or amendment of priority areas as defined in the PRS should follow the PRS process and, preferably, be conducted in the context of the three-yearly PRS review. For the purposes of this paper, we will hold the definition of priority sectors and core priority areas included in the PRS.

What being a priority sector in Tanzania’s PRSP means has not been formally defined. In practice, however, it has had the following implications:

- protection of “priority” budget allocations from cuts during budget execution;
- quarterly instead of monthly expenditure releases;
- priority in resource allocation during the budget process;

11 The justification provided in the budget guidelines reads as follows: “.. for the need of effective poverty reduction, consolidating and sustaining macro-economic stability, realizing high economic growth, strengthening law and order, anti-corruption reforms, attracting investment, protecting environment, stimulating rural based agro-industries, and enhancing foreign exchange earnings, the following sectors are included in the list of priority areas...”
support for annual “priority” sector PERs produced by PPER working groups;

- usually being among the first to be included in public sector reform initiatives;

- greater availability of donor resources and support

Before the advent of the PRSP, within-year expenditure cuts were implemented by the cash budgeting committee, which did attempt to prioritize but did not use well-established criteria for prioritization. Since the PRSP, however, the Tanzanian government has fully protected domestically-financed budget items in the priority sectors from cuts during budget execution. This protection, however, benefits mainly non-wage current expenditure, since wages are always priority disbursement items in all sectors. Moreover, this protection does not automatically extend to the development budget since it is almost exclusively donor-financed and the government does not have the resources to cover for shortfalls in donor disbursements. This is a serious problem since there are fairly large discrepancies between budgeted amounts and reported executed expenditures in the development budget. These discrepancies are the result of delays in project implementation, lack of disbursement of program loans and grants, and incomplete capture of donor expenditures. Taking this variability into account, it is likely that the discrepancy between budgeted and executed amounts in the priority sectors is significantly higher than in non-priority sectors due to the large amounts of donor support included in the latter.

The allocation of quarterly releases to the priority sector ministries is an important contribution of the PRSP process and reflects the Tanzanian government’s commitment to support these sectors. The beneficiary ministries report that quarterly releases have removed the more severe strictures of the cash budget system and have allowed them to improve their planning and strategic resource allocation, hence supporting progress toward achievement of PRS goals. Non-priority ministries, on the other hand, report extreme difficulties in their ability to plan and to run their operations in a rational and efficient manner.12

The PRS implies that, as far as resource allocation is concerned, being a priority entails receiving an increased budget share. The PRS states that “…the government, guided by the findings from the stakeholders’ workshops, will confine its financial interventions mostly to (i) education (notably at primary school level), (ii) health (primary health care), (iii) agriculture (research and extension); (iv) roads (in the rural areas); (v) water, (vi) judiciary; and (vii) HIV/AIDS.” It also indicates that “expenditure allocations for these ‘core’ sectors are expected to increase significantly when compared to the allocations for other sectors. In particular, total allocation for “other charges” for all priority sectors is projected to increase (as a proportion of discretionary expenditure) over the medium term from about 21 percent in FY 2000/01 to over 22 percent and nearly 26 percent in FY 2001/02 and FY 2002/03, respectively. Simultaneously, the allocation for “other charges”

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12 The 2003 PER views the fiscal risks involved in moving to general quarterly releases for all MDAs as small. It recommends that the government provide quarterly releases to all MDAs, giving them one fourth of their budget allocation during the first quarter of the fiscal year and, in subsequent quarters, adjusting releases to non-priority sectors in line with resource availability.
for the core areas is expected to increase, respectively, from 11.3 percent to 13.4 percent and 16 percent.”  

What being a priority sector has meant in practice from the viewpoint of resource allocation will be examined in section IV. At this point, however, it is important to point out that the share of expenditure defined as “priority” in overall expenditure is becoming too large thereby endangering the intrinsically relative meaning of the concept of prioritization. Before addition of new areas in FY2003, priority expenditures amounted to 57.8 percent of total non-debt expenditure. The additional priority sectors account for 11.8 percent of total non-debt expenditure, leading to a total of 69.6 percent considered “priority” by the 2003 Budget Guidelines. Finally, when some original PRS priority sectors like justice only get 37 percent of their requirements, it makes it difficult to substantially continue to include them among the “priority” areas.

Information/Reporting on Priority Expenditures. The information reported on priority sector expenditures has not been consistent either. The PRS contained projections for overall expenditures in the seven priority sectors, broken down into expenditure on personal emoluments (wages), other charges (non-wage current expenditure), and development (capital expenditure). It also contained projections for the core priority areas of primary education, primary health, and agricultural research and extension and a disaggregated list of priority expenditures which defines core expenditures and provides expenditure projections at the item level. The first and the second PRS progress reports, on the other hand, provide information on expenditures in the priority sectors and core priority areas but do not contain a detailed breakdown of expenditures similar to the list of priority items provided in the PRS. This prevents a comparative analysis of expenditures in the seven core priority areas, hence impairing monitoring of PRS implementation.

Data on priority expenditures reported across government documents is inconsistent. In particular, data is inconsistent across PRS progress reports and between those and the PRS, budget guidelines, budgets themselves and sector PERs. Since the PRS progress reports do not contain the precise definition of what is included in the sectoral expenditure data, however, it is difficult to ascertain the source of the discrepancies.

The ability to adequately capture and report priority expenditures is impaired by technical problems such as difficulties with expenditure classification. These problems are particularly relevant for the education sector where spending on basic education appears to be only partially captured in the PRS. This lack of comprehensiveness is due to the fact that financing of the primary education development program (PEDP) is allocated through various ministries and many of the relevant budget codes were not known at the

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13 The 2003 PER argues that the definition of “priority expenditures” should, ideally, mean full-funding based on PRS-assessed needs and, at the least, a commitment to the maintenance of the share of these expenditures in overall domestically-funded expenditure and of their absolute allocations in real terms. It also urges the government to examine the areas not defined as priority in the PRS for savings to be re-allocated to the priority sectors.
time of the preparation of the PRS. Thus, expenditure on basic education in the PRS progress report appears to be under-reported compared to the sector PER and the sector program. To enhance transparency, it is important that the PRS progress report contain a precise definition of what is included in the priority sector expenditures. In addition, sector PERs should also pay greater attention to monitoring PRS expenditures and try to ensure consistency in coverage, definition, and source of data with the PRS.

Since service delivery in several priority sectors including primary education, primary health, rural roads, and water, is the responsibility of local government, information from local authorities is key to be able to reliably assess developments in priority expenditures. Local authorities, however, only report executed aggregate expenditures. This means that treasury releases for the priority sectors can be monitored, but not executed expenditures. If treasury releases and executed expenditures were roughly equivalent and local government followed the intended use of central transfers, this would not present much difficulty. At present, 70 to 90 percent of local government spending is financed through transfers from the central government and hence treasury releases for priority sectors roughly approximate overall expenditure in these sectors for most local governments. Some local governments, however, do have relatively high levels of own revenue and use some of that revenue to supplement central government funding for the priority sectors. In this case, the absence of sectorally disaggregated data does pose a problem.

Moreover, since central government transfers for the priority sectors are in the form of conditional grants, it is safe to assume that priority expenditures executed at the local level are consistent with treasury releases. However, as fiscal decentralization reforms progress and local authorities are given more scope to decide on the use of central government grants, targeting expenditures on the priority sectors will become more difficult.

Another problem in properly reporting on priority expenditures arises because a significant share of donor funding for development purposes is not adequately captured in budget figures. This leads to an underestimation of spending in the priority areas. Although the PRS seems to make an adjustment for some of the development expenditure not captured in the budget, we consider it more prudent to work with budget figures.\textsuperscript{15}

Another problem in assessing overall priority expenditure is the fact that data are limited to government expenditures. In cases where there is service delivery by NGOs or the private sector, focusing only on public expenditures may give a misleading picture of actual resources devoted to address specific issues. This lack of information on efforts by the private sector and NGOs also impairs government decisions regarding resource allocations across and within sectors including the geographic targeting of resources.

Finally, data on priority sector spending is only the first step in assessing the impact of government action on poverty reduction. To ensure that the identified priority sectors

\textsuperscript{15} For example, for FY02 the PRS indicates actual development expenditure for the road sector of T.Sh. 113.9 billion while the budget’s appropriation accounts only indicate spending of T.Sh. 50.1 billion. However, since it is unclear how the estimates included in the PRS were arrived at, we consider budget figures more consistent and reliable even if they underestimate actual expenditures.
indeed contribute to poverty reduction, more detailed information on the impact of spending in the priority sectors on poverty reduction is necessary. In this regard, information on results from expenditure-tracking and service delivery surveys jointly with benefit incidence analysis of priority sector expenditures and program impact evaluations are necessary to supplement information on budgetary allocations. The PRSP process has provided an enormous impetus for the supply, demand, and divulgation of information in all these areas.

The improvement in the government’s ability to track and publicize poverty-reducing expenditures has been strongly linked to the focus placed on the priority sectors by the PRSP process. For instance, expenditure-tracking exercises were initiated in connection with the HIPC initiative, the benefit incidence analysis currently under way was requested by the poverty monitoring group of the PRS monitoring master plan and service-delivery surveys and program impact evaluations have received a strong impetus since the advent of the PRS.

Results-Orientedness of the Budget Process

The PRSP process has enhanced the results-orientation of the budget process, increased attention on the role of data and emphasized the need for evidence-based policy-making for poverty reduction. Unlike previous development strategies, the PRS defines key objectives of public policy and establishes a link between goals, targets and strategies for achieving these objectives. In some priority sectors, the PRS already identifies budget allocations necessary to achieve those targets while in sectors where detailed costing was not available at that time, the commitment to develop and integrate that costing is stated. Subsequent to the elaboration of the PRSP, full costing of all priority sector interventions has been carried out and the results have been reported in PRSP progress reports. Just as importantly, the PRSP approach has led to an expectation that budget allocations should be consistent with the country’s poverty-reduction strategy. This expectation is novel and has led to increased scrutiny of those links by civil society and donors alike.

Moreover, the PRS has marked a shift from defining priorities along administrative or sectoral lines to defining priorities in terms of desired outcomes. One of the key challenges for the budget and MTEF processes is to translate these objectives and desired outcomes into (preferably quantifiable) outputs which represent the contribution of government to the achievement of PRS objectives and to estimate the resource requirement for the "production" of these outputs.

This challenge, however, has only been partially met and the results-orientation of budgeting could usefully be further enhanced. At the moment, results in many areas are not sufficiently well-defined to feed directly into the budget and MTEF processes. Work on establishing baseline values and targets for some indicators is still ongoing. Even for those indicators where targets have been established, the period over which targets should be achieved differs by indicator and relatively little effort has been made to facilitate monitoring of these indicators by setting targets whose timeline coincides with the budget or MTEF cycles. In this regard, setting annual targets for the MTEF period would allow better alignment of the MTEF strategy with the annual budget and the PRS as well as
improved monitoring of the impact of expenditure allocations on poverty reduction indicators, enhancing the results-orientation of the budget process.

The PRSP process has also led to an increased focus on monitoring and evaluation, hence producing much valuable data and analysis to guide fiscal policy-making. This information, however, has added to existing initiatives which are not properly coordinated. At present, a large number of processes to monitor results are in place, with a variety of objectives. Some of these are associated with donor programs, while others are domestic and have different institutional “homes.” These include: a) the Poverty Monitoring System, which provides the overall framework for assessing progress in meeting PRS objectives; b) the PER process, whose goals include costing the achievement of PRS objectives as well as the broader goal of estimating output-based resource requirements; c) the MTEF, which in addition to providing a medium-term framework for budget allocations also includes the quarterly monitoring of budget execution and progress in delivering planned outputs; d) the monitoring and reporting to Parliament on the implementation of the CCM’s election manifesto by the Prime Minister’s Office; e) "performance budgeting," aiming to link budgetary inputs to specific outputs and which, contrary to the PER and the MTEF which are led by the Ministry of Finance, is led by the Civil Service Department; f) sector development programs for health and primary education which provide a well-defined framework for linking resources to desired outputs and outcomes and have a regular review mechanism for the achievement of outcomes; g) public sector performance management system, which focuses on performance assessment of the public sector and linking organizational goals to individual performance. Most of these processes (the CCM election manifesto, the MTEF, the performance budgeting exercise and the public sector performance management system) were launched before the onset of the PRS and often do not articulate income poverty reduction objectives.

The various monitoring mechanisms are poorly coordinated and their linkage to budgeting is tenuous. They were set up at different times, with different objectives and at different government agencies. A recent review of the results orientation of public expenditure management in Tanzania concludes that these processes have resulted in the development of indicators and targets in all PRS-relevant sectors. However, the report also point out that these indicators often lack consistency as well as a clear definition of the institutional responsibilities for deciding targets and monitoring achievements and of the intended users of the information they produce. Effectively enhancing the results-orientation of the budget will thus require consistency of indicators, harmonization of processes and a better link to the budget.

At the moment, the budget process itself shows little responsiveness to results. Both the MTEF and performance budgeting formally aim to use feedback on performance. However, there are at least three sources of tension between the objective of creating a stronger link between performance and allocations. The first is the inherently political nature of the budget process which poses limits to the technocratic approach inherent to

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16 Tanzania’s National Poverty Monitoring System has three main working groups: a) surveys and census; b) research and analysis; c) routine data systems; and d) dissemination.
results-based budgeting. The second source of tension derives from the pressure from domestic and international constituencies to increase spending in the priority sectors and the lack of desirability to punish the intended beneficiaries of government services in these sectors (i.e. school children or the sick for, say, poor performance of teachers or doctors). A final constraint is the technical difficulty of assessing “performance,” given complex relationships and only very partial knowledge on the production function linking budgetary inputs, outputs and outcomes. One possibility would be to clearly define the responsibilities of key individuals in the delivery of policy outcomes in priority sectors and strengthen their accountability. This would allow punishing the actual agents of lack of performance in a sector rather than the intended beneficiaries of services.

Monitoring efficiency in the use of budget resources would greatly contribute to achieving greater results-orientation in budgeting. So far, however, the main focus in budget management has been on budgetary allocations and, to a lesser extent, on results while efficiency in the use of resources has received much less attention. In moving forward, it is important to identify efficiency indicators and monitor the evolution of efficiency over time. In so doing, however, proper account should be taken of output characteristics that are not easy to capture, quantify, and compare and may lead to incorrect estimations of efficiency, such as variations in the quality and sustainability of outputs/interventions.

Monitoring the impact of public expenditures on the poor is also weak and needs to be strengthened. Tanzania has adopted broad targeting, with spending being allocated to priority sectors that have been identified though the PRS process as being of direct relevance to poverty reduction. In order to evaluate whether such spending has indeed had the desired impact on poverty reduction objectives, it will be important to monitor more closely who the beneficiaries of such spending are in practice and how public expenditure has impacted them. Therefore, in addition to carrying out a benefit incidence analysis of expenditure in the main social sector programs based on HBS data, it is also important to carry out evaluations of specific programs in the priority sectors in order to assess to which degree the poor have benefited from them.

Data use and feedback into policy-making. Available data and analysis on poverty do not appear to be systematically influencing budget allocations. There is, however, some progress. The Vice-President’s Office reports that new areas of policy focus driven by weaknesses revealed by empirical findings include urban poverty; macro-micro linkages; poverty mapping and vulnerability. There is also a more long-term trend toward a slow improvement in the use of data and analysis in policy-making.

Moreover, the availability and dissemination of more and better data from household and other surveys has created more demand for information and more debate on poverty issues. Recent and reliable data on various aspects of poverty is publicly-available and underpins high-quality studies. The 2000/2001 household budget survey, together with a series of background papers, were used for the elaboration of a Poverty and Human Development Report (2002) by the research and analysis technical working group of the PRS monitoring system. This study and the second PRS progress report provide
invaluable information which the government could use to further align its policies with the goals of the PRS.

To date, however, this information has not been consistently used to improve the geographical or other targeting of budget allocations or to increase the pro-poor focus of sectoral expenditure programs. Results of benefit incidence analysis and poverty mapping, for instance, could be used to inform budgetary decisions and sectoral policies. From a fiscal perspective, the most important exercise that could be carried out would be identifying a formula for the geographical allocation of resources that would correct the anti-poor bias of the current historical allocations method. A process to carry out this task has been initiated. The PER process could also support a review of expenditure programs in light of recent information and analysis on poverty.

Open and Participatory Nature of the Budgeting Process

Openness and Transparency in Policy-Making are intrinsically valuable—The prevalent concept of welfare and poverty held in the development community has progressively widened. We have moved away from a narrow, income-based definition to a much broader one including many other dimensions of welfare that enrich people’s lives in a non-monetary manner. Amartya Sen, a leading proponent of this approach, views development as the process of enhancing people’s freedom to lead the kinds of lives they have reason to value. This definition includes economic facilities, as well as political freedoms, social opportunities, transparency guarantees and protective security. Political and civic freedoms and transparency and openness in government policy-making processes are thus considered to be of value in and of themselves, regardless of any other benefit they may entail in the effectiveness and equity of public policy. Hence, an open and transparent budgeting process is a direct contribution to the welfare of citizens and often leads to more results-oriented and pro-poor policy-making.

This section will examine Tanzania’s budgeting process in terms of its openness and participatory nature. It aims to assess to which extent the PRSP process has contributed to improvements in this area.

Openness and Participation

Tanzania has one of the most open and participatory budgeting processes among PRSP countries, largely due to its yearly participatory public expenditure review (PPER). Tanzania’s PPER process was started in 1997 as a complement to the periodic traditional Bank-led public expenditure reviews. An important shortcoming of traditional public expenditure reviews is that, given the scant involvement of domestic stakeholders in their elaboration, country “ownership” and feedback loops into policy-making are limited. Tanzania’s participatory public expenditure review process, on the other hand, is government-led and open to stakeholders from civil society and the donor community. It is chaired by and has strong leadership from the Ministry of Finance. This process has three main goals. First, it aims to foster the exchange of information and views among

key actors in the development community, hence strengthening partnership and mutual accountability. Second, it seeks to carry out joint analytical work on macroeconomic, fiscal and sectoral issues of particular interest to its participants and their constituencies. Third, by enhancing the ownership of the process and its links to the budgetary cycle, the PPER aims to increase the likelihood of its impact on actual budgets and sectoral policies. While the second goal is largely common with traditional PERs (though there the analytical work is not joint), the first and third are novel and unique to this participatory process.

Tanzania’s PPER cycle involves a main PER working group, a macro working group and sectoral working groups (on education, health, agriculture, water, roads and HIV/AIDS; and justice). The main working group includes representatives from the Ministry of Finance, sectoral ministries, the donor community, NGOs, research institutes, PORALG (President’s Office, Regional Administration and Local Government) and the Local Government Reform Program (a project implementation unit). It is chaired by the permanent secretary of the Ministry of Finance, who provides leadership to the process. The group meets bi-weekly to discuss budget issues throughout the year and provides direction to the overall participatory public expenditure review process, including the sectoral working groups and the macro group as well as the external review of the PPER. The macro and sectoral working groups also meet roughly on a bi-weekly basis, developing a work program at the beginning of the year and, by the end of the annual cycle, complete a report intended to inform the government’s budget process.

After the yearly cycle of PPER, there is an “external evaluation” led by the World Bank in which all stakeholders external to the Tanzanian government (ie. Other donors and civil society organizations) are invited to participate. The external evaluation phase is meant to be timed so that it also feeds into the budget process. The cycle concludes with the publication of a Public Expenditure Review.

The role of civil society. The PPER process is highly valued by participants as it is seen to strengthen the openness, transparency and participatory nature of policy-making in sectoral and budgeting issues. As one of the interviewees for this case study phrased it “The PPER is meaningful. If you miss the chance to prepare an input for the PER, you miss your chance to influence the budget.” Moreover, it is also felt that the dialogue has a value in and of itself, since it encourages the exchange of information and views as well as the forging of partnerships among participants. It has also allowed valuable contributions by a dynamic and capable civil society. Civil society organizations (CSOs) in Tanzania are strong and have become more actively engaged in the PPER process over time. Constituted by a combination of service delivery, advocacy and mixed NGOs, Tanzanian CSOs act as a conduit for grass-roots concerns to reach the policy level.18

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18 For an example of how civil society activism in Tanzania led to a pro-poor policy change in the context of the PRSP process, see R. Alonso “The Elimination of User Fees on Primary Education in Tanzania—A Case Study in the Political Economy of Pro-Poor Policies.” For a critical view on civil society in Tanzania, see
CSO participation complements the perspectives provided by government and the donor community and plays a crucial role in enhancing the accountability of overall policy-making as well as of the PRS and the PPER processes in particular. CSOs provide valuable contributions to the sectoral working groups in their areas of expertise and, progressively, to overall macroeconomic and structural issues. CSO effectiveness has been further enhanced by the recent creation of a “broker” or umbrella organization—the “NGO Policy Forum,” which is led by the various member NGOs in turn. It acted as the broker for the NGO community during the FY03 PPER process and CGE meetings. (See *NGO Statements. Consultative Group Meeting. December 2-5, 2002*).

Civil society representatives interviewed for this case study, however, feel that the full potential of the PPER process is not yet realized. In particular, they point to three main areas of weakness—lack of strong leadership on the government’s side, weakness of links with the budgetary and PRS processes and insufficient participation of civil society in the external phase of the public expenditure review. Although the main PER working group is strongly led by the permanent secretary of the Ministry of Finance, the sectoral working groups have insufficient representation from line ministries and scarcely any participation from the Ministry of Finance, which weakens their links to the budgetary process. In this regard, participants report a lack of clarity on the relationship between the recommendations of the PER working groups on the one hand, and the government’s budget guidelines and the budget on the other.

At the moment, although the external PER is formally open to CSOs, it is in fact strongly dominated by donors. More active involvement of CSOs in the external review phase of the PPER process—perhaps through the broker NGO policy forum—would be highly desirable as part of a long-term strategy to progressively devolve this social accountability exercise fully to domestic actors. Extending Tanzania’s PRS monitoring master plan to include a participatory monitoring and evaluation system in which civil society could play a leading role would also be an excellent complement to the role of CSOs in the PPER process. Strengthening the links between the PPER on the one hand and the budgetary and PRS processes on the other is also crucial to the credibility and sustainability of these processes and will be discussed below.

*Dialogue with line ministries.* Dialogue between the Ministry of Finance and line ministries during the budgeting process takes place mainly through the budget guidelines committee. The budget guidelines committee includes participants from the planning commission of the Ministry of Finance, the planning departments of some line ministries and the Office of the President, Planning and Privatization and is chaired by the latter. Through this committee: a) line ministries can channel requests for funding to the MoF; b) the MoF can communicate overall resource envelopes to line ministries; and c) all ministries concerned can discuss the implied inter-sectoral allocations of these resource envelopes. Some line ministries, however, feel that there is a lack of open dialogue with the budget guidelines committee and that the process through which eventual allocations to their sectors have been arrived at are not properly explained and discussed.
Another forum for dialogue between the MoF and line ministries—as well as other stakeholders—is provided by the sectoral working groups (SWGs) of the PPER. In addition to allowing the exchange of views on sectoral issues among stakeholders, sector PERs aim to: a) provide a good information and analytical basis for the MoF to make cross-sectoral allocations; b) enhance allocative efficiency within sectors and c) foster the development and implementation of sound sectoral strategies and allow the maintenance of donor engagement at the sectoral level in the context of general budget support.

When the participatory PER process was launched in 1997/98, SWGs were established. In subsequent years, however, they ceased to exist in most sectors and PER work was carried out by the concerned sector ministries with the support of consultants. As a result, the ownership of the PERs by sector stakeholders was rather limited. In FY03, with the impulse of the PRSP process for increased dialogue in the priority sectors, the SWGs were re-established.

These SWGs, comprising representatives from the concerned ministries, research institutes, donor agencies and CSOs, have again brought more openness to the budget process at the sectoral level. They also provide a forum for discussion of sectoral issues across ministerial lines. In the case of the agricultural sector PER, for instance, the parties involved on the government side are the Ministry of Agriculture, the Ministry of Water and Livestock, the Ministry of Property and Land Management and PORALG. Other SWGs, however, have not included representatives from all relevant ministries.

Since the advent of the PRSP process, SWGs are also one of the key mechanisms to strengthen alignment of sector budgets with the PRS. However, the articulation between SWGs and their output and the ministerial budget process has not yet been clearly defined. Experiences differed widely across sectors with respect to the level and composition of participants in the SWGs as well as regarding their impact on the budget process. While, for some sectors, PER work seems to be well integrated into the budget process, in others it appears to be carried out in parallel with only limited interaction between the two processes. Moreover, participants in SWGs expressed concern about the lack of clarity on the link between their outputs, on the one hand, and the budget guidelines and the budget itself on the other.

The 2003 PER recommends that, for the process to be as fruitful as possible, a clearer understanding be reached on the role of SWGs in the budget process. In particular, it recommends that, at a minimum, SWGs review and discuss: a) line ministry submissions to the budget guidelines committee; b) line ministry budget proposals prior to their submission to the Ministry of Finance; c) the sectoral Medium Term Expenditure Framework.

It also deems that the results-orientation and ultimate impact of the PER process would benefit from closer coordination among sector programs, sectoral PERs and the budget guidelines. In particular, in order to make sector PERs more useful in the budget process, the MoF, in consultation with sectoral PER working groups, should consider providing a GFS/IFMS-consistent standard form for all ministries to specify their financing requirements as input into the budget guidelines. All PER working groups could provide,
as part of their output, a financing request in that format to the relevant line ministries, which would discuss their submissions to the Ministry of Finance with the PER working group. In addition, the designation of contact people at the Ministry of Finance for the priority sectors would allow a more fluid communication with line ministries and SWGs. These contact people would regularly attend SWGs, provide the interface between the sector and the Ministry of Finance, and participate in the decision-making process of inter-sectoral resource allocation. They would also be the conduit for information feedback to SWGs regarding eventual allocations to the sector in the budget guidelines and the actual budget.

The transparency, efficiency and effectiveness of the sectoral planning and budgeting process would also benefit from a clarification and streamlining of the relationship among a multiplicity of processes. These include the PRS, the annual budget, the PER, the MTEF, the performance budget, and sector development programs for primary education, health and agriculture. In most sectors, there appears to be significant scope for streamlining and harmonization, since at present these processes seem to take place in parallel instead of feeding into and building onto each other. The FY03 PER recommends that, for areas where sector-wide approaches are in place, like health, education and agriculture, sector programs should provide the basis for the work of the relevant PER SWG and that consistency and mutual feedback between the program and the sector PER be ensured.

Another problem that has hampered the usefulness of the sectoral PER process has been timing. The PER process was designed with a view to feeding directly into the budgeting process. However, in practice, sector and other PER work has often been delayed and not available at key stages of the budget process, in particular at the time of the preparation of the budget guidelines. The establishment and respect of realistic timetables for a PER process that is fully aligned with the budget cycle is essential. In this regard, timetables should allow for analytic inputs to be provided to the relevant line ministries in time for their consideration when putting together financing requests to the Ministry of Finance for the elaboration of the budget guidelines, the MTEF, and the annual budget.

The PPER and PRSP processes are mutually reinforcing. The PPER process is very much in line with the spirit of the PRS and constitutes a great vehicle to institutionalize participation into the implementation phase. Inversely, the PRSP process has contributed to the strengthening of the PPER and its results-orientation toward poverty-reduction. In fact, in Tanzania, the PRSP process has provided added impetus to the PPER. In particular, as mentioned above, it contributed to the re-establishment of SWGs in PRS priority sectors in 2002 in order to provide a framework for more in-depth discussion of sectoral issues. By emphasizing the need for links between goals, targets, indicators, outputs and inputs, the PRSP process has also enhanced the results-orientation of the PPER process and there is now greater pressure by civil society organizations to link outputs from the PPER to the budget and the PRS cycles. Finally, the focus of the PRSP process on donor coordination and alignment with country-owned priorities has also enhanced donor interest and participation in the process, as it is seen as the key vehicle to be part of discussions in and be informed about the overall direction and quality of government policies as well as about developments in priority sectors.
SWGs seem to have facilitated the coordination among key stakeholders leading to the elaboration of sector-wide approaches. The elaboration of sector-wide approaches, in turn, has entailed the elaboration of well-developed strategies including targets, indicators and costed interventions for the achievement of the stated goals. The education and health sectors have been successful in using their strategies and the accompanying donor support to command a greater share of public expenditure. In this regard, the recent elaboration of a strategy for the agricultural sector is very much welcome, in particular given the findings of the 2002 household survey on the stagnation of poverty levels and other social indicators in rural areas. The elaboration of sector-wide approaches in other priority sectors, like the water and the roads sectors would also be highly desirable.

Finally, the results-orientation of the PPER could be further enhanced. In this regard, the 2003 PER encourages PER working groups, line ministries and the Ministry of Finance to use information from the output-based budgeting reports and performance-based budgeting information from the Civil Service Department to increase the focus of their work on efficiency and increase accountability. Finally, it would also be desirable in the medium-term to extend the PER process to non-priority sectors in order to extend the benefits of the process in terms of openness, transparency and enhanced planning and review to those sectors. The energy sector, for instance, could benefit from greater dialogue between the Ministry of Energy and the Ministry of Finance as well as from the greater stakeholder engagement, information exchange, joint strategizing and enhanced accountability resulting from the establishment of a PPER SWG. A more comprehensive coverage of the PER process would also enhance its operation as an open process of competition for funding across sectors, further encouraging the results-orientation of working groups.

Dialogue and Coordination with Local Government. 19 Tanzania, like many other countries in the region, has been undergoing a process of decentralization. Decentralization and PRSPs, however, are in tension across the globe. PRSPs are built from the grass-roots up beginning with the participatory process. However, once preferences revealed by the participatory process have been aggregated, priorities, strategies and policies are determined at the national level. Moreover, consultation processes have often focused on civil society and bypassed local government. In a decentralized context, however, much decision-making power resides at lower levels of government and the central government has little control as to how policy priorities are determined and how funds are used at the local level. This is particularly challenging in the PRSP context since some of the policy areas that are most decentralized are basic social services, like primary education and primary health care. Successfully addressing this challenge requires creative thinking adapted to the specific circumstances of each country.

In the Tanzanian case, delivery of basic services in most priority sectors (education, health, water and agriculture) is indeed the responsibility of local government. Since, at

19 The 2003 PER includes a comprehensive section on “Implementing National and PRS Priorities Through Local Government Budgets” which addresses this issue in depth.
the moment, most basic services are funded through conditional grants central
government has significant leverage to ensure that they are used to achieve PRS goals.
However, as the decentralization process deepens, local governments are expected to
have an increasing say in the allocation of expenditures and the relationship between
national priorities and use of funds at the local level will be much less direct. Even
currently, though, the coordination between stakeholders—and, in particular,
government—at the central and local levels is essential for effective service delivery as
well as to ensure that implementation at the local government level indeed furthers PRS
goals.

Despite its importance, the inter-face between planning and budgeting for strategies and
policies at the central and local government levels is not as closely coordinated as it
should be. On the one hand, local government is not very much involved in the central
government’s budget process. This is of concern, in particular since local governments
depend heavily on resource transfers from the center and decisions on local governments’
own resources are also made at the central level. In the budget for FY04, for instance, it
was announced that some of the taxes that local governments depend on for own revenue,
such as the “development levy,” had been eliminated. Local governments, however, had
neither been consulted on the decision nor were they provided with an alternative source
of funding. Since the development levy alone accounts for roughly one fourth of local
government revenue, its elimination will further strain their ability to deliver services,
including in the priority sectors. Transparency on the criteria used for the allocation of
government funds across districts also seems to be lacking and could usefully clarified
and publicized.

There is also insufficient coordination between line ministries and local government. In
particular, there does not seem to be a forum where they can discuss the role of local
governments in the elaboration and implementation of sector plans. In general, the lack
of fluid dialogue between central and local government seems to create an environment
of mutual suspicion and mistrust that is highly inimical to the ultimate goal of efficient
and effective service delivery to citizens.

Local governments should play a greater role in the central government’s budgeting
process through an enhanced role of PORALG in the budget guidelines committee and
improved coordination and information exchange between PORALG and local
governments. The representation of local government should also be enhanced in the
PPER process. In particular, participation of PO-RALG in the main PER working group
should be supplemented with participation of sectoral experts from PO-RALG in the
SWGs where local governments have service delivery responsibilities. This
representation would enhance dialogue between local and central government and would
ensure that local governments’ views are properly represented and addressed in the PPER
process.

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20 Water sector resource requirements from regions and local government are yet to be integrated into the
sector ministry’s input into the budget guidelines. Note on “Public Expenditure Management in the Water
Sector.” Dominique De Waal.
There also seems to be a disconnect between the budgeting processes at the local and national levels. Whereas budgeting at the national level aims to link to PRS priorities and sector strategies, local government proceeds in a bottom-up approach starting at the village level. The two processes are supposed to be linked through the issuance of yearly “Local Government Budget Guidelines.” These guidelines are meant to inform local government about the transfers they are to expect from central government as well as communicate the PRS and sectoral objectives and priorities for which the transfers are to be used. The guidelines, however, are quite general and do not provide much information on how to translate national strategies and goals into local government policies. Moreover, local government officials as well as sector ministries express dissatisfaction with their lack of involvement in their elaboration. Finally, the guidelines are often issued too late in the budget cycle for local governments to properly take account of them when elaborating their budgets.

None of these reforms, however, can solve the substantial potential contradiction in priorities between a nationally-driven and a bottom-up budgeting process in the context of decentralization. However, these two processes can be at least partly harmonized once districts have elaborated district development plans for the priority sectors using both PRS priorities and targets and local level inputs. Further thinking on how to bring coordination about is urgently needed.

The Role of Parliament

The National Assembly\(^{21}\) has the constitutional mandate to oversee the budget. However, the institution’s role in the budget process is still limited. Every June the Government presents the budget to the National Assembly for approval. The legislature, however, is not involved in setting priorities during the preparatory stages of the budget including through the elaboration of the budget guidelines. Similarly, legislative involvement in the MTEF process also remains limited to representation at the PER Consultative Meeting. The MTEF is not submitted to Parliament either separately or as part of the Government’s yearly budget submission\(^{22}\). Furthermore, the Constitution limits the ability of the National Assembly to initiate legislation with financial implications and the legislative body is largely excluded from the financial agreements the Government enters into with international institutions.

In addition, despite the emergence of opposition parties throughout the 1990s\(^{23}\), the political dominance of the CCM remains strong, with 274 voting seats in the National Assembly or 93 percent of a total of 294. Hence, even if the ruling party is not internally homogenous, lack of real contestability hinders the political debate and the checks and balances between executive and legislature. Moreover, according to some national observers as well as some external studies, the introduction of multi-party politics seems

\(^{21}\) In Tanzania, the term “National Assembly” refers only to the national legislative body itself. The term “Parliament” is sometimes used to denote the President together with the National Assembly.

\(^{22}\) See A. Bird, August 2002. ODI.

\(^{23}\) Currently there are 13 political parties that are officially registered under the Political Parties Act of 1992.
to have led to a closing of the ranks within CCM and thus to a decline in intra-party
dialogue.  

Resistance from the executive to make the budget more transparent combines with little progress to expand the technical capacity of MPs to weaken the ability of the National Assembly to carry out meaningful supervision of the budget. The same factors that limit the role of the National Assembly in the budget process also impaired its role in the PRSP process. Active participation of the National Assembly is needed in order to ensure broad country ownership of the PRSP and the budget, to strengthen the links between both and to control priority—and other—expenditures. Hence, the effective institutionalization the role of the National Assembly in the budgetary process would be a strong contribution to this process.

It is unclear, however, that the National Assembly would embrace the poverty reduction strategy. Last fiscal year was the first year that the National Assembly amended the budget bill proposed by the government. The amendments passed by the National Assembly, however, had little to do with the poverty reduction strategy.

**Pro-Poor Budgeting—Do Budget Allocations Reflect PRS Priorities?**

This section analyzes the evolution of expenditure in the priority sectors with a view to assessing whether the degree of priority assigned in the PRS has been respected and whether resource allocations are sufficient to achieve PRS goals. In order to do that, the section will analyze the evolution of: a) priority expenditures in absolute terms; b) the share of priority expenditures in overall discretionary expenditures and its sources of funding; and c) resource allocations to priority sectors and areas relative to estimated needs to achieve PRS goals.

*The Evolution of Priority Expenditures*

The PRSP states that “…the government, guided by the findings from the stakeholders’ workshops, will confine its financial interventions mostly to (i) education (notably at primary school level), (ii) health (primary health care), (iii) agriculture (research and extension); (iv) roads (in the rural areas); (v) water, (vi) judiciary; and (vii) HIV/AIDS.” The PRS also indicates that “expenditure allocations for the ‘core’ sectors are expected to increase significantly when compared to the allocations for other sectors. In particular, total allocation for “other charges” for all priority sectors is projected to increase (as a proportion of discretionary expenditure) over the medium term from about 21 percent in FY 2000/01 to over 22 percent and nearly 26 percent in FY 2001/02 and FY 2002/03,  

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25 Weak capacity of the National Assembly includes the technical capacity of MPs themselves, lack of resources (e.g. lack of staff), problems with the effective functioning of the committees, etc. A number of capacity-building projects are presently underway From the British Council, AWEPA, USAID and UNDP, among others. These projects attempt to…

26 Its role was indeed limited. A number of MPs participated in the preliminary PRSP workshops while the parliament held a 2-hour debate on the PRSP.
respectively. Simultaneously, the allocation for “other charges” for the core areas is expected to increase, respectively, from 11.3 percent to 13.4 percent and 16 percent.”

The analysis below draws from PRS information on priority sector expenditures and PRS progress reports, which provide data on actual spending in the priority sectors up to FY02 and the budget estimates for FY03. Projections for the period FY04 to FY06 are obtained from the budget guidelines for FY04-FY06. This information has been complemented by information from the budget books, appropriation accounts, and sector PERs. We convert nominal expenditure figures into real per-capita expenditures at constant FY03 prices. This allows comparisons over time as well as a more direct indicator of the evolution of potential service delivery to individual Tanzanians.27

Per capita spending on the priority sectors (e.g. education) increased by 53 percent from about T.Sh. 14,500 in FY99 to T.Sh. 22,100 in FY02 (Figure 1). The budget for FY03 includes an increase in per capita spending to about T.Sh. 30,000 and the budget guidelines for FY04-FY06 by FY04 project that it should remain roughly constant thereafter.

![Real per capita expenditures in priority sectors doubles between FY99 and FY04](image)

Trends in expenditure in core priority areas (e.g. primary education) convey a similar picture (Figure 1). Between FY99 and FY02, core priority area expenditure increased by 77 percent, going from about T.Sh. 7,400 in FY99 to T.Sh. 13,100 in FY02. They are

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27 For our analysis, we have adjusted the spending figures shown in the PRS for basic education and for spending on roads in line with the discussion in the previous section.
projected to reach around T.Sh. 20,000 in FY04 and remain roughly at that level in FY05-FY06.

The increase in expenditures in core priority areas (77 percent) is higher than in the broader priority sector expenditures (53 percent), mainly due to the rapid increase in primary education expenditure through the donor-funded Primary Education Development Program. However, the rapid increase in both priority sector and core priority expenditure which took place in 1999-2002 is expected to plateau as of next fiscal year.

**Sectoral Developments in Priority Expenditure**

Figure 2 shows the distribution of priority expenditure across the priority sectors and core priority areas. Individual sectors receive very different shares of total priority expenditures. Education receives by far the largest share, claiming 47 percent of the total followed by roads (20 percent) and health (17 percent). Together, these three sectors claim about 84 percent of all priority expenditure. Water and agricultural research and extension claim six percent each while judiciary and HIV/AIDS only account for two percent of priority expenditures each.

![Figure 2. Education, Health, and Roads claims 84 percent of priority sector spending](image)

This large variation in relative allocations across priority sectors mainly reflects differing resource needs and degree of priority assigned by the government, civil society and the donor community to each sector. It would be important, however, to assess the contribution of additional resources to each sector to attaining PRS goals since the marginal cost of increasing performance in the sectors receiving smaller allocations may be much less than in other sectors. For example, the percentage of resource requirements that are forecasted by the MTEF to be allocated to sectors whose resource needs are relatively small (such as HIV/AIDS or primary justice) is particularly low (See Table 1). These trade-offs could usefully be taken into account in making resource allocations.  

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28 The allocations across priority sectors do seem to reflect relative costs as well as ranking of priorities in the PRS workshops. In particular, participants in all zonal workshops identified education as the top
Table 1. Summary of MTEF Full-financing Estimates and Resource Availability (Tsh billions)
2003/04 – 2005/06

<table>
<thead>
<tr>
<th>Sectors</th>
<th>2003/04</th>
<th>2004/05</th>
<th>2005/06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
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<td>116</td>
<td>100</td>
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<tr>
<td>ASDP Priorities</td>
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</tr>
<tr>
<td>Education</td>
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<td>Basic Education</td>
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<td>100</td>
</tr>
<tr>
<td>Health</td>
<td>362</td>
<td>236</td>
<td>65</td>
</tr>
<tr>
<td>Priority Activities</td>
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<td>192</td>
<td>90</td>
</tr>
<tr>
<td>HIV/AIDS</td>
<td>98</td>
<td>22</td>
<td>51</td>
</tr>
<tr>
<td>Roads</td>
<td>392</td>
<td>290</td>
<td>74</td>
</tr>
<tr>
<td>Total</td>
<td>1,485</td>
<td>1,116</td>
<td>75</td>
</tr>
</tbody>
</table>

Considering the distribution of expenditures across core priority areas, the key difference arises from the exclusion of trunk and regional roads from expenditures in the roads sector, whose share shrinks from 20 percent of broadly defined priority sector expenditures to only four percent of core priority area expenditures. This difference reflects a very small share of and increase in expenditure in rural roads.29

As figure 3 shows, all the priority sectors have experienced significant increases in real per capita spending over the past four years. The smaller sectors show higher percentage increases than the larger sectors, even if the larger sectors have received the bulk of additional resources in absolute terms. However, social expenditure per capita and as a percent of GDP is still significantly below the norm in the region. For sectors for which international spending norms exist, Tanzania’s expenditures are well below these norms. For example, the cost of a minimum health care package has been estimated to be between US$ 9 to 12, while spending in Tanzania is only around US$ 5.

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29 The relatively small increase in expenditure in the core priority area of rural roads reflects bottlenecks in the sector (such as a shortage of district engineers) as well as poor governance in that sector.
Increased Priority Expenditures – Benefiting from a Benign Resource Environment or Hard Choices?

While increases in overall and per capita expenditures in the priority sectors and core priority areas since the advent of the PRS have been substantial, it is interesting to assess whether these increases result from higher overall expenditure levels or from a change in the composition of expenditure. A related question is whether the increases in priority sector/core priority area spending are mainly financed by donors or whether they also reflect a genuine re-prioritization of domestic budgetary resources through the budget process.

Figure 4 shows that, except for FY00, increases in discretionary spending have exceeded increases in priority sector spending (even when broadly defined). This implies that the observed increases in priority sector spending have been financed from additional resources available to government and have not required a reduction in spending in non-priority sectors.
During the period FY00-FY03, increases in priority sector spending generally exceeded increases in core priority areas, i.e., a significant share of additional spending increases went to areas other than those designed as core within the priority sectors. Hence, there appears to have been little reprioritization to core priority areas within the priority sectors. Looking ahead, however, the projections for FY04-FY05 indicate higher absolute increases in core priority area expenditures than in overall priority sector expenditures (Figure 5). This indicates that, in addition to the additional resources made available to the sectors, the core priority areas are also expected to benefit from shifts within the priority sectors from non-core to core areas.
Prioritization can also be assessed by comparing the relative increases of broad expenditure categories. Figure 6 reveals that priority sectors have not received consistent priority in budget allocations. Whereas, percentage increases in expenditure for the core priority areas exceed increases in broadly defined priority sector expenditures in FY00 and FY01, in FY02 and FY03, on the other hand, the situation is the reverse.

Figure 6. Percentage change in priority and non-priority expenditures

Analyzing priority sector expenditures as a percentage of total discretionary expenditures gives the same picture. After an initial increase from 52 percent in FY99 to 59 percent in FY00, the share of priority sector expenditures in total discretionary expenditures subsequently declines to reach about 49 percent in FY06. In fact, the conscious effort to increase priority sector expenditures in the early years of thePRS (FY99-02), appears to have dissipated thereafter.
Between FY00 and FY02, most of the increase in priority sector spending is attributable to increases in recurrent rather than development expenditure (Figure 8).
Comparison of Allocations Against Costing Estimates to Reach PRS Goals

Expenditures on priority sectors has generally exceeded original PRS projections for the period FY01 – FY03. Total priority spending was 3 percent below the target in FY01, but exceeded PRS projections by 9 and 26 percent in FY02 and FY03, respectively (Figure 9). The earlier under-spending reflects a slight delay in implementation of sector programs while the later over-shooting of PRS projections reflects higher availability of donor financing than initially envisaged.

Figure 9. Spending on priority sectors exceeds original PRS targets

T.Sh. Million at Constant FY03 Prices

Comparing PRS projections and actual expenditure/budget data by sector indicates that there was initial under-spending in the health, water, and agriculture sectors as well as on HIV/AIDS. Under-spending in these sectors during FY01 and FY02 was compensated in the aggregate by spending in the education sector which significantly exceeded the PRS target. In the FY03 budget, allocations for almost all sectors either match or exceed the original PRS projections for that year. Only allocations for HIV/AIDS are still below the PRS projections, although this may be partly due to persistent problems in adequately capturing HIV/AIDS related spending due to its cross-cutting nature. The fact that expenditure in priority sectors is overall above PRS projections and yet well under the latest estimated requirements reflects the fact that costing was very preliminary at the time of the elaboration of the PRS.

Finally, we compare the match of PRS projections to actual spending by economic classification, i.e., wages, non-wage expenditure, and development. Spending on wages and salaries matched most closely PRS projections. Non-wage current spending exceeded PRS projections with an ever-increasing margin, reflecting the government’s commitment to the financing of the priority sectors. Finally, capital expenditure was below projections in FY01, and above projections in FY02 and FY03. This reflects both
better information on donor-financed development projects as well as better targeting of donor resources on the priority sectors.

Original PRS costing estimates, however, were rough and have been subsequently refined through sector programs and PERs. According to these more recent estimates, expenditure in the priority sectors and areas is well below the levels needed to achieve PRS goals. In fact, the 2003 PRS progress report and the 2004 budget guidelines report severe financing gaps in the priority sectors. The 2002 Poverty and Human Development Report shows how, despite strong progress in some areas such as primary education enrollment rates and vaccination, the attainment of most targets contained in the PRS will pose an enormous challenge. Namely, as evidenced by the second PRS progress report, despite significant progress in implementing sector-wide reforms in priority sectors like health and education, resource availability constitutes a binding constraint to the achievement of most targets.

According to the 2004 budget guidelines, the shortage in funding between “requirements” and “ceilings” for priority sectors in 2003 alone amounts to 150,067 million Tsh, with similar gaps in the outer years. Moreover, these estimates do not take account of the fact that some of the figures included as requirements in the budget guidelines are far smaller than those contained in sector programs. In the case of primary education, for instance, the figure contained in the primary education development program as requirement is 323,049 Tsh million while the figure contained in the budget guidelines is only 243,970, with a resulting gap of 79 Tsh million. Similarly, in the water sector, the requirement figure included in the financial submission of the PER working group is 16.6 Tsh million higher than what appears as requirement in the budget guidelines. This shortage of resources combined with a declining share of priority sector expenditure in overall government expenditure raises serious questions as to the government’s commitment to the achievement of PRS goals.

**Are PRS Priority Expenditures Truly Pro-Poor Expenditures?**

Most of our analysis on resource allocation has centered on whether budget allocations were in line with PRS priorities. For budget allocations to improve the welfare of the poor, however, they need to be expenditures that benefit the poor and actually reach the poor. The first element to consider, therefore, is whether the areas defined as priority in Tanzania are typically pro-poor.

The priority sectors broadly defined are not necessarily pro-poor, although the PRS core priority areas (primary education, primary health, water, research and extension, rural roads, HIV/AIDS and justice—primary courts--) are very likely to be pro-poor. Hence, the analysis of the evolution of core priority areas is much more relevant to an analysis of pro-poor expenditure than that of the broadly defined “priority sectors.”

While international empirical evidence indicates which types of expenditure are pro-poor, the most accurate method to assess it in a given case is through benefit incidence analysis based on household budget survey data. Tanzania carried out a HBS in 2002 and the data...
is currently in the process of being used to carry out a benefit incidence analysis exercise. When that exercise is finalized, we will better be able to assess which expenditures are pro-poor in Tanzania and hence whether expenditure in priority areas is indeed pro-poor.

Another angle through which to analyze whether public expenditure is pro-poor is its geographical distribution. Poverty rates vary widely across Tanzania and a valuable exercise would superimpose a poverty map to the distribution of public expenditure. Since allocations are currently done through a historical method and they tend to benefit the richer areas with a higher endowment of public facilities, this exercise would likely reveal an allocation of resources that is biased against the poorest regions and districts of the country. Given the gaps that the 2002 Poverty and Human Development Report reflects in almost all social indicators between rural and urban areas, it is essential to redirect expenditure toward rural areas and the poorer regions and districts. In this regard, the Tanzanian government intends to carry out a study on and subsequently review the geographical allocation of expenditure once an updated poverty map has been elaborated with inputs from the 2000/2001 Household Budget Survey and the 2002 Census and to start increasing the resources allocated to poorer areas as of next fiscal year. This exercise would be an excellent means to use available information and related poverty analysis to ensure a greater impact of limited public resources on the poor.

Expenditures need to actually reach the poor in order to have an impact. Expenditure-tracking exercises can assess to which extent that is the case. The HIPC initiative emphasizes accountability for the use of debt relief resources and, in so doing, gave a significant impetus to expenditure-tracking. In 2001, the Bank and the Fund carried out a joint assessment of 15 benchmarks covering budget formulation, budget execution, and budget reporting. Eight out of the 15 benchmarks were considered to be met at the time of the assessment, which put Tanzania among the best performing countries in Africa. Based on this assessment, a concrete action plan was developed including steps to further enhance Tanzania’s public finance management system and its capacity to track poverty-reducing expenditures.

As part of the HIPC exercise, the Tanzanian government had committed to carrying out expenditure-tracking surveys in all priority areas. Since then, a number of expenditure-tracking surveys of limited scope have been carried out. In 1999, the PER working group commissioned an expenditure-tracking exercise for the health and education sectors in a small number of districts. In 2000, Research on Poverty Alleviation (REPOA), a Tanzanian research institute, carried out a diagnostic expenditure-tracking survey in all priority sectors. Finally, a pilot expenditure-tracking survey of the flow of capitation grants from the Ministry of Finance to schools finds virtually no leakages. Direct transfers to service delivery units, however, are the types of expenditures that are least prone to leakages due to the directness of their means of disbursement. Hence, the

30 The assessment suggested that: a) budget formulation is quite good; however, further improvements are required in budget classification and account codes, and in accounting donor’s disbursements; b) budget execution procedures meet most standards except in the case of internal audits; and c) budget reporting is relatively satisfactory; however, improvements are required in external audit and applications of GFS-compliant functional classification.
absence of leaks in that area is not evidence of a healthy situation in others. Carrying out a systematic expenditure-tracking survey in all priority sectors would be a valuable exercise in assessing the extent to which priority expenditure indeed reaches its intended beneficiaries and would help point to weaknesses in the chain that could subsequently be addressed. This more comprehensive exercise, however, has been delayed and no consultants have yet been hired to perform them.

Finally, a higher supply of basic services does not automatically lead to an increase in their demand and use by poor people. Hence, in addition to ensuring that pro-poor expenditures are there and reach the poor, it is also important to assess whether delivered services meet the needs of the poor and actually benefit them. In this regard, service delivery surveys and other assessment tools as well as program impact evaluations are useful sources of information, including on the poverty impact of the studied programs/interventions. The Tanzanian Civil Service Department has initiated plans to carry out service delivery surveys in a few ministries of the PRS priority sectors and the Tanzania Social Action Fund (TASAF) has received training from the World Bank for its staff in the community score card methodology in order to carry out internal monitoring of its services. Moreover, a number of Tanzanian NGOs are carrying out participatory monitoring exercises at the local level. However, there is currently no channel for the local findings from these NGOs to feed into the nationally-based poverty monitoring master plan. In part due to the expectations created by the PRSP process, the Tanzanian NGO community is advocating the performance of a comprehensive expenditure-tracking survey in the PRS priority sectors committed to under the HIPC initiative as well as a systematic service delivery survey in the mode of a citizen’s report card.

**Partnership and Donor Alignment to the PRSP**

The PRSP process aims to improve the efficiency, effectiveness and sustainability of development aid by enhancing partnerships between donors and recipient countries and reducing the transaction costs of development aid on the latter. This improved partnership is to be achieved through enhanced donor coordination, alignment of donor support with country-led poverty-reduction strategies, and harmonization of donor processes and procedures.

In Tanzania, efforts to improve partnership were well under way before the advent of the PRSP process with the Tanzania Assistance Strategy in 1999. The PRSP process, with its country-led poverty-reduction strategies, aims to take this partnership further. According to a large majority of those interviewed for this case study, the PRSP process has played an important role in further focusing and deepening this partnership. In fact, since its inception, the PRS has become the guiding framework for this partnership and most donors are increasingly aligning their support with the PRS.31

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31 Not all donors are equally supportive of the PRSP process. While the smaller European donors and the European Union are highly supportive and are at the forefront of aligning their support with Tanzania’s PRSP, this is not the case for some large donors, such as the United States or Japan.
One indicator of partnership is the level of donor support received by a government, as overall aid flows to a country tend to reflect donor confidence in a government’s efforts to improve the institutional and policy environment for growth and poverty-reduction. Tanzania receives a large amount of development assistance and the level of external aid as a percentage of GDP has more than doubled since the advent of the PRSP process, increasing from 4.4 percent in 1999 to a projected 9.4 percent in 2003. (See Table 2). At the moment, about 90 percent of the development budget is financed by donors. Donors are also increasingly contributing to financing the recurrent budget through sectoral and general budget support.

Table 2. Composition of External assistance (As a percentage of GDP) FY98-03

<table>
<thead>
<tr>
<th>FY98 Actual</th>
<th>FY99 Actual</th>
<th>FY00 Actual</th>
<th>FY01 Actual</th>
<th>FY02 Actual</th>
<th>FY03 Budget</th>
<th>FY03 Actual till mid-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants and Loans</td>
<td>4.0</td>
<td>4.4</td>
<td>6.0</td>
<td>5.0</td>
<td>5.9</td>
<td>9.4</td>
</tr>
<tr>
<td>Grants</td>
<td>3.0</td>
<td>4.0</td>
<td>4.5</td>
<td>3.8</td>
<td>4.5</td>
<td>5.7</td>
</tr>
<tr>
<td>Program</td>
<td>0.7</td>
<td>1.2</td>
<td>1.4</td>
<td>1.5</td>
<td>2.2</td>
<td>1.9</td>
</tr>
<tr>
<td>Project</td>
<td>2.3</td>
<td>2.8</td>
<td>3.0</td>
<td>1.6</td>
<td>1.6</td>
<td>3.0</td>
</tr>
<tr>
<td>HIPC grant relief</td>
<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
<td>0.6</td>
<td>0.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Loans (net)</td>
<td>1.0</td>
<td>0.4</td>
<td>1.5</td>
<td>1.2</td>
<td>1.4</td>
<td>3.7</td>
</tr>
<tr>
<td>Loans</td>
<td>2.1</td>
<td>1.6</td>
<td>2.8</td>
<td>2.3</td>
<td>2.2</td>
<td>4.8</td>
</tr>
<tr>
<td>Program</td>
<td>1.3</td>
<td>0.6</td>
<td>0.9</td>
<td>0.6</td>
<td>1.0</td>
<td>1.2</td>
</tr>
<tr>
<td>Project</td>
<td>0.8</td>
<td>1.1</td>
<td>1.9</td>
<td>1.7</td>
<td>1.2</td>
<td>3.6</td>
</tr>
<tr>
<td>Amortization</td>
<td>-1.1</td>
<td>-1.2</td>
<td>-1.3</td>
<td>-1.1</td>
<td>-0.8</td>
<td>-1.1</td>
</tr>
</tbody>
</table>

Source: IMF and Tanzanian authorities

The PPER process is also a leading example of partnership between government and development partners (donors as well as civil society). The PPER aims to foster greater openness of the budget process to all stakeholders. This process has become the key platform for dialogue between the government, the NGO and the donor communities on fiscal issues, sectoral policies and aid strategies. This has led to greater transparency of the relationship between the Tanzanian government and the donor community to other stakeholders, including NGOs, parliament, and the private sector. Moreover, main consultative fora such as the annual PER consultative meeting and the donor-government Consultative Group meeting are being held in Tanzania and are open to civil society.

Efforts to integrate foreign aid into the budget. Donor alignment with country-owned development strategies requires integration of donor support into the budget, as the government’s main resource allocation mechanism. In recent years, the PER process has been the platform for discussion of issues regarding the alignment of donor aid to the PRS as well as the improved integration of donor resources into the government’s budget. In addition, the PER process has improved the exchange of information on donor commitments and expected and actual disbursements and led to the utilization of the government’s exchequer system for aid disbursements by a greater number of donors.

The PER FY02 carried out a detailed assessment of the objectives and modalities of integrating external assistance into Tanzania’s budgetary and financial management.
system. It pointed out that donor assistance is becoming more integrated into the budget through two channels: (i) a move from project to program support; and, (ii) better recording of in-kind and direct project support into government accounts.

As mentioned above, good progress has been made in improving the recording and reporting of development assistance. The PER process has been very successful in fostering improved recording and reporting of development assistance, as acknowledged by the 2002 report by the Independent Monitoring Group. Starting in FY02, a data collection exercise was carried out by the External Finance Department of the Ministry of Finance (EFD-MoF) in collaboration with development partners which was further improved under PER FY03. In September 2002, EFD sent a request to Tanzania’s development partners to provide data on disbursement and projections of their support to the country. The information was subjected to donor verification as well as comparison with similar information on donor-funded projects kept by ministries prior to being recorded in the Aids Flows Data base at MoF. This data was subsequently utilized as an input into the firming-up of the resource envelope for the 2003/04 – 2004/06 Budget Guidelines prepared in December 2002.

Donor compliance to the MoF request for aid information has been encouraging. More donor support is increasingly being captured in the budget, notably with the PRS-supported movement toward program support and basket funding. The MoF could improve incentives for donors to provide information on aid projections by including them in the budget guidelines. In spite of the progress made thus far, however, there is still much scope for improvement in the disclosure and recording of aid. Some donors are still reluctant to provide information on aid commitments and disbursement, particularly regarding direct project support, in-kind or technical assistance. Furthermore, even though the MoF has prepared procedures on how to route development assistance through the Exchequer in the context of the Public Procurement and Finance Acts (2001), some donors still find it difficult to apply the procedures it sets out. There are also capacity weaknesses related to effective involvement of sector ministries in the design of project work plans and related financing.

Recent efforts to integrate development assistance into the budget process have almost exclusively focused on the central government budget. However, many donors also provide direct assistance to the districts. PO-RALG has launched an initiative to solicit and consolidate information on donor support to LAs. Local authorities typically maintain a list of donors and NGOs operating in a particular district although there are significant differences in the level of detail in the information on donor assistance maintained across districts. Some local authorities also hold quarterly consultations with the respective donors. This databases maintained at the local level, however, are not integrated with the Aid Flow Data Base in the MoF. A consolidations of these databases would be very useful, in particular if it provided information on the regional distribution of aid. There are also ongoing efforts to establish better information systems on donor assistance at the sector level. For example, work is under way in the water sector to compile information on all water projects in Tanzania, including those supported by donors and NGOs.
Enhanced partnership through budget support and sector programs. Although donor alignment with country-owned development strategies can in principle—though with varying transaction costs—take place under any aid modality (project, sector or program), it is a natural fit for sector-wide approaches and general budget support. In this regard, there have been significant changes in recent years. Hence an analysis of the extent to which there has been a shift from project to program support is a good *prima facie* indicator of progress toward donor coordination and alignment. Since the advent of the PRSP process in Tanzania, there has been a move towards aid modalities that support domestic ownership. This includes a transition from primarily donor-managed and implemented projects to support of sectoral programs as well as general budget support for the implementation of the PRS. Sector development programs are in place for primary education, health and agriculture (all of them PRS priority sectors). In addition to sector programs, there also are several thematic basket funding arrangements in place such as those to support the local government and the tax administration reform programs. At the same time, however, between 1999 and 2003, the share of program grants in overall grants has declined from 30 to 19 percent and the share of program loans in overall loans has decreased from 38 to 25 percent (See Table 3). There is thus still much room for improvement in the alignment of donor instruments to support country ownership, partnership and the implementation of Tanzania’s PRSP.

Table 3. Program Grants and Loans

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Program grants (as a percent of GDP)</strong></td>
<td>1.2</td>
<td>1.4</td>
<td>1.5</td>
<td>2.2</td>
<td>1.9</td>
</tr>
<tr>
<td><strong>Percent of program grants in overall grants</strong></td>
<td>30</td>
<td>29</td>
<td>24</td>
<td>33</td>
<td>19</td>
</tr>
<tr>
<td><strong>Program loans (as a percent of GDP)</strong></td>
<td>0.6</td>
<td>0.9</td>
<td>0.6</td>
<td>1</td>
<td>1.2</td>
</tr>
<tr>
<td><strong>Percent of program loans in overall loans</strong></td>
<td>38</td>
<td>32</td>
<td>26</td>
<td>45</td>
<td>25</td>
</tr>
</tbody>
</table>

*Source: IMF and Tanzanian authorities*
Evolution of Aid Modalities and Donor Support for Poverty-Reducing Expenditures

One of the key motivations of the HIPC initiative was to allow countries to re-direct resources previously used for debt service towards poverty reducing expenditures. Given the fungibility of resources and annual fluctuations in the overall resource envelope of governments, however, earmarking of HIPC resources for specific purposes is neither desirable nor analytically meaningful. What is of interest is government’s overall reallocation of resources for priority expenditures.

However, just as it is not analytically or practically meaningful to ring-fence certain expenditures as being funded by HIPC debt relief, it is similarly of limited use to compare only amounts of HIPC debt relief to changes in poverty expenditures. Since several priority sectors have recently benefited from significant increases in donor financing, attributing such a donor-financed increase in priority expenditures also to the availability of HIPC debt relief sources would imply double-counting.

What is most useful is to relate increases in donor financing from all sources to increases in priority spending. Carrying out this type of analysis is of particular importance as increasingly more support is being provided through general and sector-specific budget support. Figure 10 compares development assistance from all sources (grants, loans, and HIPC debt relief) to expenditure on priority sectors and core priority areas. There are several important observations that can be made. First of all, HIPC debt relief and the PRSP process have led to an increase in total development assistance to Tanzania. Figure 10 also shows that initially development assistance available to the government of Tanzania exceeded its spending on the priority sectors. However, as part of the implementation of the PRSP, government continuously increased its spending on the priority sectors and, by FY02, priority sector expenditure exceeded development assistance available to Tanzania. Donor funding, however, significantly exceeds expenditure on core priority areas, meaning that much donor aid funds expenditures outside the PRS core areas.
Aside from looking at the overall relationship between donor assistance and priority sector expenditures, it is also of interest to examine whether increases in development expenditures since FY00 in the form of HIPC debt relief and other ODA have been matched by a similar increase in priority sector spending. This analysis will allow us to assess whether: a) the increase in priority expenditures is higher than the increase in donor-financing (which would imply increased domestically-funded expenditures in these sectors); b) the overall increase in donor support matches the witnessed increase in priority sector expenditures (which would mean that the totality of the increase in donor financing supports poverty-reducing expenditures, but no additionality in government’s own resources); or c) the increase in donor support is higher than the rise in expenditure in the priority sectors (which would imply that, due to the fungibility of program aid, increased donor support for the priority sectors has substituted for domestic funding of these sectors).

Figure 11 shows increases in ODA, priority sector expenditure and core priority area expenditure over the FY99 level. The figure indicates that increases in priority sector expenditures were initially below increases in development assistance. This gap was significant in FY00 and it narrowed in FY01. By FY02, the increase in expenditure in priority sectors and in core priority areas over the FY99 level exceeded the increase in ODA.
In addition to the overall relationship between donor funding and priority expenditure, it is also useful to examine the use of “flexible donor resources.” Flexible donor resources include general and sectoral budget support as well as HIPC debt relief. We calculate it as the difference between overall development assistance shown in the government accounts (including all foreign aid) and foreign-funded expenditure on development (including projects and some basket funds). Figure 12 shows the increase in “flexible resources” over the level attained in FY99 and compares it to increases in recurrent priority sector expenditures. This analysis reveals that recurrent expenditures on the priority sectors have only gradually increased over the past three years and the increase in “flexible donor resources” over the FY99 level is still higher than the increase in recurrent priority expenditures. Figure 12 also shows that, in FY00 and FY01, the increase in recurrent priority spending was less than resources from HIPC debt relief. Only in FY02 has HIPC debt relief been matched by an equal increase in priority sector expenditures.
In conclusion, the above analysis indicates that, over the past three years, current expenditure in the priority sectors as a percentage of GDP has increased significantly due to a greater focus of donor assistance on these sectors. The analysis also indicates, however, that the Tanzanian government has used “flexible” donor resources to increase recurrent spending for priority and non-priority sectors. The government might want to consider ways that would ensure that increases in “flexible” donor support are used to enhance spending in the priority sectors and to cover the significant resource gaps existing in these sectors, if the PRSP and MDG targets are to be met.

Variability and reliability of foreign aid

One of the key elements of an improved partnership is reliability of both partners in delivering on their promises. In the context of the PRSP process, improved reliability of donor funding would imply the ability of recipient countries to trust that, if they deliver on their end of the partnership, they can count on sustained support. This sustained support would entail: a) medium-term commitments in the availability of donor funding; b) little/reduced variability in year-to-year funding; and c) little/reduced discrepancy between promises and disbursements of foreign aid. Since foreign aid constitutes the almost totality of Tanzania’s development budget and roughly half of overall budget resources, reliability in the receipt of donor funds is crucial to sound planning and financial management by the Tanzanian authorities.

Medium-term commitments. For aid-dependent countries to be able to produce medium-term-expenditure frameworks that can reliably support their poverty-reduction strategies, ability to include medium-term donor commitments is fundamental. In Tanzania’s case, this is particularly true. Since the development budget is almost entirely
donor-financed, an MTEF that cannot include credible donor commitments is a rather empty shell. This is one of the aspects of the partnership between donors and aid-recipient countries that has witnessed the least amount of progress. Even in Tanzania, where significant progress is being achieved in other realms and where improvements in this area are being made through increased multi-year sector and budget support, most donors still only commit to yearly pledges (and even those, as we will see below, are often unreliable). Donor agencies face problems in their own governments because they do not have medium term expenditure frameworks in place and hence can only make commitments as each year’s budget is approved. An improvement in this area is one of the most important contributions the donor community could make to the successful implementation of poverty-reduction strategies in aid-recipient countries.

**Year-to-year variability.** As in other African countries, foreign aid in Tanzania is highly variable. In fact, it displays higher year-to-year variability than domestic revenue (Table 4). *Program aid* had historically been more variable than *project aid*, although this variability has been declining in recent years, especially since 1998/99 when major bilateral donors switched to budget support. Program aid is still more variable than domestic tax revenue, but now appears to be less variable than project aid. This is an important contribution of the PRSP-supported move toward budget support, as it greatly enhances the ability of the Tanzanian government for planning, resource allocation and overall improved public expenditure management.

<table>
<thead>
<tr>
<th></th>
<th>Variance (92/93 to 01/02)</th>
<th>Variance (96/97 to 01/02)</th>
<th>Coeff of Variation (92/93 to 01/02)</th>
<th>Coeff of Variation (96/97 to 01/02)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic revenue</td>
<td>0.77</td>
<td>0.52</td>
<td>0.07</td>
<td>0.06</td>
</tr>
<tr>
<td>Tax Revenue</td>
<td>0.70</td>
<td>0.46</td>
<td>0.07</td>
<td>0.06</td>
</tr>
<tr>
<td>Non-tax Revenue</td>
<td>0.05</td>
<td>0.03</td>
<td>0.17</td>
<td>0.13</td>
</tr>
<tr>
<td>Grants</td>
<td>1.24</td>
<td>0.70</td>
<td>0.33</td>
<td>0.24</td>
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<tr>
<td>Budget support grants</td>
<td>0.57</td>
<td>0.49</td>
<td>0.51</td>
<td>0.56</td>
</tr>
<tr>
<td>project grants</td>
<td>0.51</td>
<td>0.44</td>
<td>0.40</td>
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<tr>
<td>Foreign Loans</td>
<td>2.55</td>
<td>0.26</td>
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<tr>
<td>Program loans</td>
<td>2.05</td>
<td>0.21</td>
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<td>Project loan</td>
<td>0.36</td>
<td>0.34</td>
<td>0.54</td>
<td>0.44</td>
</tr>
<tr>
<td>Total Program aid</td>
<td>3.77</td>
<td>0.16</td>
<td>0.70</td>
<td>0.19</td>
</tr>
<tr>
<td>Total Project aid</td>
<td>1.47</td>
<td>1.22</td>
<td>0.42</td>
<td>0.34</td>
</tr>
<tr>
<td>Total (excl. HIPC relief)</td>
<td>6.39</td>
<td>0.81</td>
<td>0.45</td>
<td>0.17</td>
</tr>
</tbody>
</table>

**Within-year predictability,** in particular limiting deviations from committed and disbursed aid levels is also key to sound financial management. Figure 13 plots actual budget support resource flows in the last six quarters against committed flows (based on annual donor commitments). The figure shows that, in the fourth quarter of FY02 and the first quarter of FY03, budget support disbursements fell far short of commitments, then in the second quarter of FY03, disbursements exceeded commitments due to a sudden release of donor funds. This volatility affected implementation of sector programs but,
due to the fact that budget support represents a relatively small part of the budget, there was not a destabilizing effect at the macro-economic level.

**Figure 1.3. Projected and disbursed external assistance**

![Graph showing projected and disbursed external assistance with actual and committed amounts.]

Source: Tanzanian authorities (External Finance Department, MoF)

Substantial within-year variability points to the risks involved in providing greater amounts of donor aid through general budget support unless greater reliability in disbursement can be ensured. Greater reliability in disbursements, however, can only be achieved with cooperation from both donors and recipient governments. While donors need to provide reliable medium-term aid commitments supporting realistic action plans and projected outcomes by recipient governments, Tanzania needs to improve its record in delivering on policy reforms. Finally, donors and Tanzanian governments need to work together to strengthen the national capacity to develop and implement poverty-reduction strategies and related reforms. Unless progress is achieved in all three fronts, it is unlikely that the reliability of aid will improve.

**Conclusions**

This case study shows that in several important respects budgeting in Tanzania is becoming increasingly aligned with the principles of the PRSP process while the budget tends to reflect the PRSP. It also shows there is significant room for improvement in this regard. The PRSP process has fostered improvements, to varying degrees, in all four areas of the study: a) data and results-orientation of the budget; b) openness of the budget process; c) pro-poor character of expenditure and d) partnership between government and donors. The study also shows that the PRSP process has contributed to the strengthening and focusing of ongoing reforms in various aspects of public expenditure management. Finally, it has helped further ongoing initiatives in donor coordination and alignment community around the PRSP process.

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32 Recent research covering a sample of 37 countries shows that, on average, total aid fell short of donor commitments made at the time of budgeting by about 20%. It also shows that program aid had higher shortfalls than project aid (about 32% for the former compared to 20% for the latter). “Aid and Fiscal Management” by Ales Bulir and Timothy Lane, June 2002, IMF Working Paper WP/02/112.

33 Failure to fulfill conditionality in some sectors, e.g., education, were linked to weak implementation capacity.
Greater coverage and disaggregation of poverty and fiscal data and poverty analysis. The PRSP process has contributed to improvements in data on development expenditure and ongoing efforts will greatly improve the ability to consistently identify and track PRS priority sector expenditures in the budget. The PRSP process has also added impetus to the elaboration and use of disaggregated poverty data, for instance through the establishment of gender disaggregated targets in the education and health sectors. Recent and reliable poverty data is publicly-available and used to elaborate high-quality studies. This improved data coverage facilitates monitoring progress in PRS implementation and, more generally, in the evolution of the quality of public expenditure.

Greater supply and demand of data for evidence-based policy-making. The PRSP process has also led to an increased focus on monitoring and evaluation, hence producing much valuable data to guide fiscal policy-making. Moreover, the emphasis of the PRSP process in monitoring and evaluation is leading to greater supply and demand of data and information by all stakeholders and, in particular, by civil society. It is also raising expectations for evidence-based policy-making, encouraging the government to use available data and analysis as input into the policy-making process. An example of this trend is the fact that the Tanzanian government is currently using data from the recent household budget survey and census as well as analysis from its poverty monitoring system to elaborate a poverty map as well as a fiscal transfer system that would take account of regional diversity in poverty and social indicators.

Improved availability and dissemination of information. The process has also improved the extent to which the government’s strategies and policies are available and actively disseminated to the public. Although much data and information was already public before the advent of the PRSP process, key documents such as the National Poverty Eradication Strategy were only available in their technical version and in English. The PRSP, on the other hand, was made public in summary form and in Kiswahili. Moreover, the PRSP process has been accompanied by an extensive dissemination campaign by both government and civil society organizations. The process seems to have reinforced continuing efforts to improve the availability of information. In this regard, plans to create a PRSP information center are welcome.

Enhanced results-orientation of government strategies and policies. The contribution of the PRSP process seems to have been even greater regarding the results-orientation of government policies. Unlike previous development strategies, the PRS defines key objectives of public policy and establishes a link between goals, targets and strategies for achieving these objectives. Moreover, these are linked to a costing of priority interventions. This is one of the main innovations of the PRSP with respect to previous development strategies such as the National Poverty Eradication Action Plan. It is also an important contribution to improved policy-making and public expenditure management. The general move of the donor community toward support of the PRSP process has been an important contribution to this trend, since donors now increasingly focus on results rather than on policy measures.
**Increased scrutiny of consistency of the budget with PRS priorities.** The expectation that budget allocations should be consistent with the country’s poverty-reduction strategy is novel and has led to increased scrutiny of those links by civil society and donors alike, resulting in increased pressure on the government to deliver on that expectation. This expectation is not only likely to lead to more pro-poor policy-making, but also, more broadly, to greater government accountability for the consistency between its governing program/development strategy and its budgets.

**Greater focus on and improved monitoring of service delivery.** Several recent initiatives to monitor service delivery have been linked to the HIPC and the PRSP processes. In particular, expenditure-tracking exercises were initiated in connection with the HIPC initiative, the benefit incidence analysis study currently underway was requested by the poverty monitoring group of the PRS monitoring master plan, and service-delivery surveys and program impact evaluations have received a strong impetus since the advent of the PRS.

**Significant increases in public expenditure in PRS priority sectors in past years.** Between 1999 and 2003, real overall and per capita expenditures in the priority sectors and priority areas have almost doubled. This increase has not been limited to development expenditure, but has also affected non-wage current expenditure. Most of this increase, however, has been due to greater availability of donor funds rather than to increased allocations of domestic resources.

**Stagnation of expenditure and large gaps between PRS requirements and MTEF allocations for coming years.** Although allocations to priority sectors and PRS core priority areas over the first few years of PRS implementation grew both in real terms as well as a percentage of budget allocations, projections for the next three years show stagnation and large gaps with resource requirements. The alignment of fiscal policy and, in particular, of resource allocation in the coming years, therefore, presents significant problems.

**Improved ability to forecast and manage public expenditure in PRS priority sectors.** The establishment of a system of quarterly releases to PRS priority sectors has freed priority ministries from the strictures of the cash budgeting system. Beneficiary ministries and local authorities report this system has greatly enhanced their ability to plan and manage their available resources.

**Greater poverty focus of the participatory public expenditure review process.** A dynamic and solid participatory public expenditure review process existed in Tanzania since 1997/98. The PRSP process has been able to build on its accomplishments and the PRS is now the point of reference for the PER process, which strengthens its focus on poverty-reduction and results. Moreover, in FY03, with the impulse of the PRSP process for increased dialogue in the priority sectors, PPER sectoral working groups—which had been discontinued—were re-established. These sectoral working groups are one of the key mechanisms to strengthen alignment of sector budgets with the PRS.
Greater results orientation of ongoing policy and budget dialogue. By emphasizing the need for consistency between goals, targets, indicators, outputs and inputs, the PRSP process has also enhanced the results-orientation of the PPER process and there is now greater pressure by civil society organizations to link outputs from the PPER to the budget and the PRS cycles.

Enhanced donor participation in the yearly budget dialogue. The focus of the PRSP process on donor coordination and alignment with country-owned priorities as well as the accompanying move toward general budget support has enhanced donor interest and participation in the yearly budget process and its accompanying key forum for stakeholder, including donor, participation--the participatory public expenditure review.

Increased alignment of donor aid with PRS priority sectors. According to a large majority of those interviewed for this case study, the PRSP process has played an important role in further focusing and deepening the already strong partnership between the donor community and the Tanzanian government. Since its inception, the PRS has become the guiding framework for this partnership and most donors are increasingly aligning their support with the PRS. As stated above, in fact, the increase in expenditure in PRS priority sectors is mainly due to enhanced donor support. However, there is still much room for improvement, as the share of program grants and loans in overall grants and loans has declined over the past few years. Since program support—overall budget support as well as sectoral support for PRS priority sectors—is key to successful PRS implementation, the growing share of traditional project aid in overall aid is a worrying trend.

Improved channeling of aid through the exchequer and reporting of aid in the government budget. More donor support is increasingly being captured in the budget and the PER process has been very successful in fostering improved recording and reporting of development assistance. Progress on these two fronts is mainly attributable to the PER process, but is being further enhanced by the PRSP-supported expectation of government ownership in the development and implementation of its poverty-reduction strategies and policies.

Incipient progress in better forward commitments from donors. Availability of information on medium-term aid commitments is fundamental to the ability of the Tanzanian government to develop and use a credible medium-term-expenditure framework. Progress on this front has been modest, with greater availability of information in multi-year SWAP and budget support assistance. However, the large majority of donors continue to provide only pledges on a year-to-year basis.

Large but declining variability of aid flows. The year-to-year variability of program aid is high and higher than that of domestic resources. Some progress seems also ongoing, however, as the variability has been declining in recent years and especially since 1998/99 when major bilateral donors switched to budget support. The within-year variability of aid—defined as the discrepancy between committed and disbursed resources—continues to be high and can potentially be a significant destabilizing force as
the move toward program aid modalities proceeds. Greater efforts on the side of both
donors and the Tanzanian government are urgently needed to address this problem.

In summary, the PRSP process seems to have provided significant impetus to a large
number of important ongoing processes and trends towards more efficient, transparent,
pro-poor, participatory and accountable policy-making and, in particular, public
expenditure management. It has led towards improved quality, coverage, dissemination
and use of fiscal and poverty data and analysis and to an enhanced results-orientation of
government policies and processes. It has also contributed to a greater pro-poor focus and
results-orientation of the ongoing national dialogue on government strategies, policies
and budgets and, in particular, of the participatory public expenditure review process. It
has been the main factor behind the large increase in expenditure in pro-poor sectors and
areas such as primary education, basic health, water and HIV/AIDSs and a key factor in
the enhanced focus on monitoring the quality of public service delivery. Finally, it has
supported an ongoing process of improved donor coordination and has led to greater
alignment of donor aid with national priorities.

As important as the contributions of the process so far, however, are the expectations for
continued change and the PRSP-supported empowerment of actors that are key to holding
the government accountable for bringing this change about. This is a fundamental
difference between the PRSP process and other strategies aimed at improving public
sector management. In fact, the PRSP process bets on improving the welfare of the poor
and the overall quality of policy-making by supporting long-term trends toward more
efficient and transparent evidence-based pro-poor policy-making. These trends are
expected to be driven by the PRSP process’ emphasis on the production and availability
of data and on monitoring and evaluation coupled with its support of the participation in
policy processes of representatives of the interests of the poor (within and outside
government). It is too early to tell whether these expectations will be met. Early signs, at
least in Tanzania, are encouraging. However, this early progress will need to be
supported by prompt corrective action in some key areas of weakness, such as continued
resource allocation in line with the PRS, improved alignment of donor instruments and
support with PRS priorities, enhanced capacity of the Tanzanian government to
implement strategies in priority sectors and greater reliability of aid flows. The use by all
stakeholders—in the Tanzanian government, civil society and the donor community
alike—of the windows of opportunity provided by the PRSP and PPER processes will be
key to bringing these changes about.