Country Case Study 7: Design and Implementation features of Medium-term expenditure frameworks and their Links to Poverty reduction

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This study forms part of a multi-country study assessing the design and application of the medium-term expenditure framework (MTEF) as a tool for poverty reduction in selected African countries. It was commissioned by the Africa Policy Department of the Department for International Development (DFID) U.K. in collaboration with the European Commission DG Dev

odi Centre for Aid & Public Expenditure

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Abbreviations and Acronyms

BER	Budget Execution Report
BoT	Bank of Tanzania
CSD	Civil Service Department
DFID	United Kingdom Department for International Development
DFIDEA(T)	DFID Country Office in Tanzania
EC	European Commission
FY	Financial Year
FYP	Five Year Plan
GDP	Gross Domestic Product
GFS	Government Financial Statistics (classification system)
IFMS	Integrated Financial Management System
IMF	International Monetary Fund
LG	Local Government
MACMOD	Macroeconomic Model use by the Government of Tanzania
MDAs	Ministries and Independent Departments
MoF	Ministry of Finance
MoAFS	Ministry of Agriculture and Food Security
MoH	Ministry of Health
MoHA	Ministry of Home Affairs
MTEF	Medium-Term Expenditure Framework
NGOs	Non-Governmental Organisation
NPC	National Planning Commission
ODI	Overseas Development Institute
P&P	Office of the President – Planning and Privatisation
PEM	Public Expenditure Management
PER	Public Expenditure Review
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
RPFB	Rolling Plan and Forward Budget
SWAP	Sector Wide Approach
SWG	Sector Working Group
TRA	Tanzania Revenue Authority
UNDP	United Nations Development Programme
WB	World Bank

Preface

This report has been prepared as part of a multi-country study, being undertaken by the Overseas Development Institute (ODI), of MTEFs and their links to poverty reduction strategy. The principal aim of the study is to produce practical guidance that will help government officials and development practitioners to improve the efficacy of MTEFs as a tool to support implementation of poverty reduction strategies. The country case-studies will be used as the basis for preparing a cross-country comparative review from which recommendations will be drawn regarding best practice.

The fieldwork for the Tanzania Country Study was carried out during a 10 day visit to Tanzania in July 2002. At the request of the Tanzanian Ministry of Finance, a summary of the key findings and recommendations was submitted to the Tanzania Public Expenditure Review (PER) Working Group in August 2002 (Part I of this report). A more detailed summary of the Field Visit Findings was then prepared following the format of the standard checklist that was developed by ODI for use in all the case study countries (Part II of this report).

The field visit to Tanzania involved an extensive programme of meetings with both government officials and others. The author would like to express his gratitude to all those who shared their experiences. Particular thanks are due to Mr. P.M. Lyimo, the Deputy Secretary in the Ministry of Finance and to Ms. F. Shera, the Economic Adviser in DFIDEA(T) for their efforts to ensure that the study was integrated into the wider PER process in Tanzania.

1. Background

1.1 When/why was the MTEF introduced?

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

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

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

The key concerns in introducing the MTEF were: (i) to provide a broad budgetary strategy within which the annual budget could be prepared; (ii) to strengthen links between sector policies and resource allocations; and (iii) to provide a mechanism through which analysis of budgetary performance could be fed back into the budget planning process.

Introduction of the MTEF in Tanzania was linked to the PER process and to a change in the way that PERs were conducted. Prior to this the WB had undertaken periodic PERs beginning in 1987/88. These were conducted primarily as external exercises and were not timed to feed into to the budget setting process. The recommendations of the PER process proved difficult for the Government to assimilate and implement, raising questions about the usefulness and effectiveness of the process, both on the side of the WB and the Government.

From 1997/98, an annual PER was introduced aimed more directly at strengthening the budget process. Donor participation in supporting the PER process has been broadened, the exercise has been opened up to a wider range of stakeholders and the MoF has assumed greater leadership of the process through its chairmanship of the PER Working Group.

- In the 1997/98 PER the focus was on developing the annual budget guidelines (for the 1998/99 Budget) into a more policy based document (Guidelines for MTEF and Budget Preparation) with an enhanced sectoral coverage and an extension of the underlying fiscal framework to a three-year time horizon.
- In subsequent years the process evolved to include the preparation of a three-year MTEF and the development of sector expenditure frameworks for priority sectors identified in the PRSP.
- Broadly the PER follows a two phase process. “The first phase focuses on technical work for strengthening budget management and feeding into the preparation of the budget frame/MTEF. The second phase combines evaluative work and open consultation on strategic resource allocation, prioritisation and budget management issues” (2001 PER page 6-7).

In effect Tanzania has used the PER process to move very quickly to a relatively well-developed and broad-based MTEF in which line ministries are directly engaged with the preparation of forward expenditure plans and there is extensive stakeholder consultation. By contrast, in Uganda, it took several years to reach this stage.

1.2 Key features in the approach to implementing the MTEF

The approach has been participatory and has been characterised by strong leadership from the MoF:

- Line ministries are represented in the Budget Guidelines Committee. They are subsequently responsible for the development of forward budgets based on the ceilings in the Budget Guidelines.
- Through the PER linkage, the process has also involved stakeholders outside of Government, both in the PER Working Group (donors, the private sector and NGOs are represented) and through the annual PER Consultative Meeting.

Parliamentary involvement in the MTEF process currently 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 budget submission.

Within the Government, the MoF has been the leading advocate of the MTEF process.

One consequence of the MTEF reforms has been an enhanced policy role for the MoF in linking resource allocations to sector policy priorities (and further reflected in the MoF's leadership of the PRSP process). This has resulted in some marginalisation of the former NPC, now Planning and privatisation under the Office of the President (P&P), which has also lost its former responsibility for preparation of the development budget.

Line ministries regard the MTEF exercise as having brought greater certainty to the budget process, making it easier to plan programmes over the medium-term. However, in some cases they have seen the supporting technical studies and analysis undertaken through the PER as being externally imposed rather an integral part of their own budget planning and prioritisation.

The MTEF process in Tanzania has also relied on considerable external assistance. This has occurred within the framework of a clear vision and strong leadership from the MoF. This assistance has comprised three main elements:

- Direct involvement of the WB and other donors through the PER process and in the PER Working Group that oversees both the PER and MTEF exercises. The Working Group meets twice monthly during the period August-May.
- Considerable logistical support made available to the MoF through the PER Secretariat based in the WB Country Office.
- The financing of studies commissioned by the MoF aimed at better informing the public expenditure management processes. In the case of the 2001 PER/MTEF cycle, nine donors (UK, UNDP, EC, Denmark, Sweden, Switzerland, Japan, Norway and WB) financed a total of 16 studies.

The MoF recognises that there will be a need for greater internalisation of the management of MTEF preparation within its own structure and a clearer separation of the roles of donors and Government. As a first step, during 2002/03, it is planned to relocate the PER Secretariat to the MoF.

2. The MTEF Process and Organisational Framework

2.1 The MTEF process and calendar

There are two distinct stages in the MTEF process:

- Preparation of the Budget Guidelines commencing in October/November. The guidelines themselves comprise: (i) an initial draft, prepared by the Macro-Group, of the cross-sectoral MTEF including the macroeconomic forecast, the definition of the resource envelope and sectoral resource ceilings; and (ii) instructions setting out the arrangements for preparing the detailed annual estimates and sectoral MTEFs, the procedures for budget planning at regional and LG levels, and the forms to be used in making budget submissions.
- The formulation of detailed three-year forward budgets (referred to in the Budget Guidelines as MTEFs) by line ministries and independent departments (MDAs). These include: (i) an overview and policy statement; (ii) environmental scan (stakeholder analysis, SWOT analysis, key issues); (iii) reviewed institutional perspective (vision of the ministry, mission statement, objectives, policies and strategies), (iv) budget performance review; and (v) three year forward estimates for the MTEF. In the case of the MoH, the submission for the 2002/03-2004/05 comprised some 30 pages of text, 180 pages of annual implementation report tables, 790 pages of activity costing tables and budget submissions.

Thereafter the process splits into the two principal strands:

- The finalisation of the annual budget for which the detailed MTEF tables provide the input for the preparation of the annual estimates (which follow a different format).
- The presentation at the annual PER consultative meeting in May for which the draft Cross-Sectoral MTEF is updated and summary sector MTEFs are prepared by the line ministries. The conclusions of the PER consultative meeting then feed back into the MoF's finalisation of the annual budget.

See Annex for a diagrammatic representation of the PRSP and Budget Calendar.

Main players who take part in MTEF preparation are, within the MoF:

- Policy Department – develops the fiscal framework and prepares the cross-sectoral MTEF analysis for inclusion in the Budget Guidelines
- Budget Department – proposes together with the Policy Department sectoral and ministry resource ceilings, prepares the instructions for the MTEF and Budget preparation, evaluates line ministry MTEF and Budget submissions, and prepares the annual budget.
- External Financing Department – updates the projections of external resource flows.
- Accountant General – provides technical backstopping in operation of the budget planning module of the IFMS system.

Office the President - planning and privatisation (P&P)

- Macroeconomic Department – prepares macroeconomic forecasts using MACMOD.
- Chairs the Budget Guidelines Committee.

Office of the President - Civil Service Department (CSD)

- Policy and Planning Department – develops wagebill projections and advises on the likely budgetary implications of public service reforms.

MDAs

- Policy and Planning Departments – are involved in the Budget Guidelines Committee, co-ordinate preparation of detailed MTEF and Budget submissions for their ministries.

The Policy Department in MoF and the Policy and Planning Departments in line ministries are also directly involved in the PRS process.

2.2 Political engagement

There are no consultations with Cabinet to consider broad issues and priorities at the outset of preparation of the Budget Guidelines. The Budget Guidelines are discussed and approved by Cabinet in December before they are distributed to MDAs and regions. Prior to Cabinet presentation, the Inter-Ministerial Technical Committee of Cabinet, comprising all permanent secretaries, reviews the Guidelines.

In approving the Guidelines, Cabinet endorses the sector resource ceilings within which MDAs subsequently prepare their detailed forward budget proposals. However the presentation to Cabinet does not highlight budget choices in the form of competing alternative allocations within the overall resource envelope. (Note that if Cabinet presentation is delayed the Guidelines may be circulated as a draft subject to confirmation).

Thereafter there is no further consideration of the MTEF by Cabinet for example in advance of the PER Consultative Workshop when the draft annual budget is presented. Consequently, the Budget Guidelines represents the Government's formal MTEF document.

Broader consultations take place through the PER/MTEF/Budget working group structures and the annual PER Consultative Meeting:

- the inter-ministerial Budget Guidelines Committee, chaired by P&P oversees preparation of the Budget Guidelines
- as noted above the main PER Working Group includes representatives of donors, NGOs, Bank of Uganda, academic institutions (ESRC, REPOA), donors, and the private sector;
- the Macro Sub-Group of the PER Working Group prepares the analytical sections of the Budget Guidelines Paper and finalises the Cross-Sectoral MTEF. The sub-group includes representatives of the Bank of Uganda, and academic researchers.
- PER Sector Working Groups (which exist only for some sectors) are responsible for preparing background submissions for the Budget Guidelines, for overseeing sector studies on PEM issues and for supporting the preparation of forward budget estimates. SWGs may include representatives of donor agencies and NGOs active in the sector. However, compared with Uganda, the SWG concept is not yet well established.
- The annual PER Consultative Meeting includes a wide cross-section of interests. The 2002 meeting was attended by 370 representatives. These were drawn from Government, private sector, NGOs, civil society organisations, Parliament, Regional Commissioners, political parties, donor agencies, and the media.

2.3 The role of Parliament

Currently the MTEF is not presented to Parliament. Neither does the presentation of the Annual Budget to Parliament include the two outlying years of the MTEF. Parliamentary representatives are invited to the PER Consultative Meeting – in 2002 nine MPs attended.
Dissemination of the MTEF is essentially through: (i) the Budget Guidelines which are distributed to all MDAs, to regions and to LGs; and (ii) in a shortened and slightly updated form at the annual PER Consultative Meeting at which there is an extensive media presence (the 2002 meeting was attended by 39 representatives of the media)

In practice, dissemination of the MTEF is obscured by the absence of a single clearly identifiable MTEF document that is approved by the Government as part of the annual budget process. To some extent this reflects the intertwining of the Government's budget process and the PER exercise in which there is a strong external involvement. Thus:

- The Budget Guidelines combine an MTEF presentation with instructions for budget preparation, and confusingly refer to the preparation of MDA forward budgets as MTEF preparation.
- The cross-sectoral MTEF document presented at the PER Consultative Meeting is one of a number of presentations rather than the major strategic "output" of the annual budgetary planning cycle.

3. MTEF Structure and Coverage

3.1 Time-frame and out-year estimates

The MTEF covers three years – the coming budget year, plus two outlying years.

The Budget Guidelines include a number of tabulations of expenditure ceilings for the three-year MTEF:

- A breakdown of expenditure totals in the three year budget frame by major economic category. For recurrent expenditures this separately identifies interest payments, wages/salaries, Road Fund, special expenditures, Consolidated Fund Services, transfers to TRA, retention scheme, election costs and other charges. Development expenditures are broken down between local and foreign financed.
- Sectoral allocations for other charges and domestically financed development showing the proposed allocation between (i) ministries/departments; (ii) regions; and (iii) LGs. Note these do not include either the wages/salaries component or externally financed development expenditures.
- Institutional ceilings for recurrent expenditure and domestic development expenditure for individual ministries/departments, regions, district councils and urban councils. The recurrent ceilings are further sub-divided between salaries/wages and other charges.
- A more detailed analysis for the PRS/MTEF priority sectors showing, for each major activity, the required funding and the proposed resource allocations. (Note it was not clear on what basis these estimates of resource requirements had been determined or their realism in terms of contributing toward the realisation of longer term PRSP targets). For the 2002/03-2004/05 MTEF, the priority sectors covered education, health, water, law and order, good governance, census, agriculture, energy, roads, statistics, Controller and Auditor General, and HIV/AIDS. The allocations to these priority sectors accounted for 57% of total expenditures (excluding debt servicing). Allocations to the priority sectors represented 86% of assessed requirements.

3.2 Comprehensiveness

The MTEF does not include LG revenues and expenditures financed by these revenues. Externally financed project expenditures are included although there have been difficulties in projecting and recording these expenditures. The 2002 MTEF includes fuller coverage of externally financed projects and as a result the allocation was increased from Tsh 244 billion in 2001/02 to Tsh 952 billion in 2002/03 (figures from the Cross Sectoral MTEF presented at the PER Meeting, the Budget Guidelines had projected spending on externally financed projects to increase to Tsh 601 billion).

The treatment of wage/salary expenditures and externally financed project expenditures within the MTEF process is different from non-wage recurrent expenditure and the domestically financed development budget. Wage bill allocations are determined centrally by the Civil Service Department and MoF, with line agencies having little discretion to propose for example shifts between wage and non-wage expenditures (this constraint was relaxed slightly for the priority sectors in the 2002 MTEF). Allocations for externally financed projects are determined on the basis of committed funding and planned commitments and as such are not subject to a common sectoral resource ceiling.

The MTEF presents expenditure and financing estimates at an aggregate level within a single Budget Frame table showing resources by major source and expenditures broken down between recurrent and development. A more detailed breakdown is also provided of proposed allocations for the priority sectors and the priority programmes within these sectors. In the Budget Guidelines the allocations are disaggregated into resource ceilings by institution. The Budget does not include any analysis of resource allocations to the MTEF priority sectors and programmes.

MDAs in their Forward Budget submissions are required to project spending forward for the full three-year MTEF period. This is done at a very detailed level (forward budget) with subvote (departmental) allocations broken down by: (i) objective (ii) service target; (iii) required input and unit cost; (iv) estimate. The budget estimates are presented at a more aggregate level (vote, subvote, item).

4. Basis and Process of Setting Resource Projections

4.1 Forward projections and aggregate estimates

Forward projections are developed using a macroeconomic model (MACMOD) which has been under development since 1992. The core model is an IS-LM-BOP framework (market for goods and services, money market, and market for foreign exchange). Exogenous policy variables are primarily government consumption, government investment and money supply. Exogenous external variables (shocks) include: (i) foreign transfers, commodity prices and weather. Endogenous variables include income (GDP), real interest rate, government revenue, exports, imports and current account. The projections are developed jointly by the MoF, P&P and the BoT.
The macro targets generated by MACMOD are reviewed together with the IMF. Adjustments are then made and jointly agreed.

The aggregate fiscal constraint is based on an assessment of revenue potential, expenditure requirements and the possibilities for financing consistent with BoT money supply and inflation targets. There is consultation with the IMF in this process.

The MoF has yet to adopt a revenue forecasting model although one is being developed within MACMOD. Revenues targets for all revenues sources are jointly agreed with the TRA taking into account trend relationships with GDP, the expected impact of on-going revenue policy and administration reforms and additional measures consistent with the MoF's long-term objective of increasing revenue as a share of GDP.

Forecasts of external financing are based on estimates provided by donors for both budget support and project financing. HIPC savings are not identified separately in the Budget.

In recent years, the accuracy of the macro-fiscal projections have improved significantly. Resource projections are reviewed through the MTEF/PER exercise. The 2002 MTEF notes that revenue performance during 2000/01 were some 7.9% above budgeted levels while revenues during the first nine months of 2001/02 were 1% above budgeted levels. The strong revenue performance was attributed to improved revenue collection from petroleum taxes and the imposition of VAT on "white" petroleum products.

The 2002 MTEF notes that budget support grants and credits were some 22% below targets in 2000/01 due to delays in finalising disbursement modalities (Table 1).

Table 1: Comparision of MTEF Projections for Revenues and External Financing with Outturns

Revenues					
			Tsh billion		
	1999/00	2000/01	2001/02	2002/03	2003/04
MTEF 2000		882.0	993.9	1,120.7	
MTEF 2001			1,020.7	1,123.2	1,251.2
MTEF 2002				1,159.1	1,273.5
Outurn	777.6	929.6	1,026.1		
External Financing (Gross: Grants + Loans)					
			Tsh billion		
	1999/00	2000/01	2001/02	2002/03	2003/04
MTEF 2000		502.8	529.9	391.9	
MTEF 2001			628.9	580.2	559.4
MTEF 2002				1,276.0	1,137.4
Outurn	479.3	460.9	624.0		

Note: Outturn figures for 2001/02 are revised estimates included in 2002 MTEF
Source : Cross-Sectoral MTEFs preseented at PER Consultative Meetings

Although data on projected revenues and external financing was available from only three MTEFs, the projections for 2002/03 and 2003/04 suggest relatively consistent forecasting of revenues providing a more certain environment for budget planning. The large increases in external financing projected under the 2002 MTEF is almost entirely due to the attempt by the MoF to include fuller coverage of external project financing in the Budget Frame.

5. Basis and Process of Setting Aggregate Limits and Broad Allocations

5.1 MTEF allocations and expenditure limits

The MTEF allocations are incorporated into the resource ceilings contained in the Budget Guidelines. The out-year ceilings from the previous MTEF provide the starting point for determining these resource ceilings which are then adjusted to reflect the updated fiscal projections and subsequent policy changes.

Aggregate limits are broken down between wagebill, non-wage recurrent, domestic development and donor development categories. As noted above allocations for wagebill expenditures and externally financed development are currently determined separately based on CSD wagebill estimates and an analysis of donor financing commitments. Domestic development budget allocations are to a large extent driven by the local cost financing requirements on donor funded projects. In the 2002/03 Budget, domestic allocations account for only 6.6% of the total development budget.

In principle the aggregate limit for preparation of the annual Budget estimates is the same as the expenditure figure from the MTEF, although it is adjusted to take account of subsequent updating of the budget frame.

In approving the Budget Guidelines, Cabinet confirms the setting of the resource ceilings for the priority sectors and for the individual spending agencies. However, there is no prior process of involving Cabinet in determining the underlying budget options and expenditure choices on which the resource allocations are based. (Indeed it is not clear how explicitly these are considered by the Macro Group in preparing the Budget Guidelines).

The NPC was formerly responsible for the PIP. However, since preparation of the development budget was transferred to the MoF, the PIP processes of project selection, approval and monitoring have to some extent lapsed. As a result:

- the present procedures do not allow for determining whether projects proposed by agencies have undergone an appropriate appraisal process;
- projects are appraised and approved in isolation and usually within the narrower context of the donor's assistance programme rather the wider public expenditure priorities of the MTEF; and
- there are no procedures for reviewing project performance and whether a project merits continued financing.

5.2 Other limits provided to line organisations

In the Budget Guidelines, proposed resource allocations are shown for the priority sectors with planned allocations also shown for the priority programmes within each sector. In the 2002 MTEF allocations to the priority sectors and programmes include wagebill expenditures, other recurrent expenditures and development allocations. In previous MTEFs they only covered other recurrent expenditures.
Consistent with these planned allocations, the Guidelines set out resource ceilings for ministries/departments, regions, and LGs. These ceilings are broken down between personal emoluments, other charges and domestically financed development expenditure.

The absence of a common sub-functional (programme) classification applicable to both recurrent and development budgets represents a significant constraint to the MTEF analysis and to linking resource allocations to policy priorities.

5.3 Revisions during the preparation process

Line ministry resource ceilings are generally respected. For the Recurrent Budget, the adjustments that are made reflect primarily: (i) further updating of the macro-fiscal framework; (ii) final decisions on payroll and wagebill adjustments taken by the Civil Service Department (consistent with the overall wagebill constraint set out in the MTEF); and (iii) evaluation of spending agency requests and proposals.
However, in presenting the Budget the MoF provides no analysis of allocations for priority sectors and programmes compared with the targets set in the Budget Guidelines.

Organisational allocations are proposed by the Budget Guidelines Committee based on consultation between line ministries and taking into account the Government's stated priorities under the PRSP. There are no specific sector or programme expenditure targets for spending as a share of total expenditure or as a share of GDP.

5.4 The role of donors in determining allocations

Donors can influence resource allocations primarily through the PER process. Their influence is now primarily through consultation and participation rather than through conditionality.
Donors also finance, through the PER process, cross-sector and sector studies that aim to provide a stronger basis for planning resource allocations between and within sectors.

5.5 Revisions to the framework

The MTEF does not analyse changes in organisational and programme allocations between MTEF exercises. Procedures for reviewing budget performance also appear not to be well developed. The Budget Department in the MoF undertakes a limited performance review of the previous year's budget in August of each year that looks at variations between budget allocations and preliminary outturn expenditures. However, the review does not cover all votes and the conclusions are not published.

5.6 Links to performance targets

Tanzania has introduced a performance budgeting system. This requires descriptive targets to be set for each subvote (department) cross-referenced to the objectives for the sector, and the main programmes for each sector. Descriptive targets are further disaggregated to the activity (budget item) level. Currently these targets are specified in great detail in line ministry MTEF and Budget submissions. Greater aggregation in the presentation of targets would facilitate a more strategic approach to target setting and monitoring. For ministry resource allocations, targets are often not quantified in terms of service delivery outputs – one reason for this is that the Ministry may not be responsible for service delivery which is undertaken through regions or LGs.

MTEF targets are set consistent with the PRSP but relate to the three year MTEF period. They are set at a very general level. For example the targets for agriculture in the 2002 MTEF are: (i) increasing real agricultural GDP growth from 3.4% to 5% in 2003 and 6% in 2005; (ii) raising the corresponding growth rate in the livestock sector from 2.7% to 5% by 2005; and (iii) increasing the real annual growth rate for export crops over the same period from 6.8% to 9%. There is a risk that such targets go beyond what can realistically be influenced by the actions of Government and linked to resource allocations under the MTEF.

6. Policy, Planning, the MTEF and Budgeting

6.1 Treatment of new policy proposals

During the late 1980s and the 1990s the role of the former NPC in co-ordinating the planning and policy process was significantly eroded. While in part this reflected the changing paradigm of the role government within the Tanzanian economy, it was also a consequence of the greater prominence being given to macroeconomic and fiscal stabilisation in which the BoT and MoF were more directly engaged. This was accompanied by greater fragmentation of responsibilities for planning and policy-making:

- P&P continues to be responsible for co-ordinating long-term policy development under the Tanzania Development Vision 2025. This outlines the Government's long-term targets on poverty eradication and human development as well as on good governance and stability. The National Poverty Eradication Plan sets out the Government's poverty reduction targets to 2010 and 2015.
- The focus of medium-term policy-making has shifted from the former five-year planning cycle. This was initially replaced by the three-year RPFB, which like the FYP was prepared by NPC. Subsequently, the RPFB was superseded a broader policy and planning process characterised by three main initiatives: (i) the Tanzania Assistance Strategy which sets out the medium-term national strategy for economic and social development; (ii) the PRSP setting out the medium-term strategy for poverty reduction; and (iii) the PER/MTEF process emphasising linkage between policies and resource allocation. While each of these initiatives have been characterised by extensive stakeholder participation, co-ordination has been exercised increasingly through the MoF.

Sector policy proposals are developed by line ministries. The linkage between policy and budgeting processes has been strengthened, with the requirements for and the conclusions of policy and programming studies being considered within the framework of the PER/MTEF.

Policy proposals are developed by the responsible ministry and submitted for decision by Cabinet. Prior to their consideration by Cabinet, they are reviewed by officials in the Cabinet Office and then discussed by the Inter-Ministerial Technical Committee (of Permanent Secretaries). It is at this stage that the views of other stakeholders are explicitly considered, although there will often have been prior consultation during the development of policy proposals.

The PRSP and PER/MTEF have contributed to a much closer integration of policy, planning and budgeting processes and as noted above have largely superseded the former FYP and RPFB processes. The PER Working Group has provided an effective mechanism for co-ordinating sector policy work with the MTEF/Budget process.

6.2 Drivers of policy change

In recent years the MoF and sector ministries have assumed a greater role in driving the policy change process with donor agencies increasingly seen as playing a supporting role. At the same time the way that the PER process operates has tended to blur the lines of demarcation between

government and the donor agencies. More generally, policy processes in Tanzania remain strongly consensual, emphasising consultation both within government and with other stakeholders.
The PRS process may also have contributed to a stronger engagement of Cabinet in the policy process through its involvement in the preparation of the PRSP and quarterly review of implementation.

Within MDAs, Policy and Planning Departments are responsible for both SWAPs and the MTEF. SWAP proposals are developed against the framework of resource constraints provided by the MTEF and fall within the oversight of the PER Working Group. However, the integration with the MTEF is undermined by the continued difficulties in bringing the externally financed Development Budget within the framework of MTEF resource ceilings.

7. Basis and Process of Organisational Expenditure Planning

7.1 MTEF preparation

As noted earlier, preparation of the MTEF in undertaken in two distinct stages. There are differences in the way that proposals are developed in each stage:

- Stage 1: Preparation of the Budget Guidelines. This is primarily a "top-down" process with the Policy Department in the MoF taking lead responsibility for the development of the proposals and the determination of resource ceilings. While there are no formal ministry submissions at this stage, MDAs in the PRSP priority sectors provide an update on policy development and implementation together with a costing of their sector programmes (including those elements implemented through regions and LGs). Sector ministries are further involved through their participation in the Budget Guidelines Committee.
- Stage 2: Preparation of Forward Expenditure (MTEF) Proposals. MDAs are required to present their budget proposals in the form of detailed three-year forward budgets. Because these are presented at the institutional level the analysis is not sector wide and the proposals do not cover spending by regions (which are required to make separate presentations) or LGs (which are not directly involved in the MTEF exercise). The format of the spending proposals links costings to activities, targets and objectives. The accompanying submission also includes a wider overview of policies and strategies, stakeholder and SWOT analysis and review of past budget performance.

In practice there is not a clear distinction between the MTEF and detailed preparation of the Budget. In other countries (e.g. Uganda) the MTEF exercise would equate with Stage 1 and preparation of the detailed annual budget with Stage 2. Adopting this distinction the following comments can be made about current practice in Tanzania:

- The role of line ministries during the Stage 1 MTEF phase could be considerably enhanced. This might involve the presentation by line ministries of updated sector expenditure strategies and resource allocation proposals, as well as the commissioning of periodic topic-specific studies (e.g. reviews of specific sub-sector programmes, expenditure tracking studies etc.).
- As Stage 2 is not primarily concerned with the strategic resource allocation decisions in the sector (since these are determined in Phase 1) the usefulness of presenting detailed three-year forward budgets might be questioned. An analysis of proposals presented for health and agriculture for the 2002/03 Budget suggests that these project forward the costs of existing activities rather than seeking to identify policy and efficiency led changes in the composition of activities and spending proposals. This risks significantly reducing the usefulness of the Stage 2 projections, particularly for the two outlying years.

MDAs undertake periodic strategic planning exercises that lead to the presentation of updated policies and strategies for their sectors. These exercises typically involve all MDAs operating in the sector (as has occurred with the recently prepared Agriculture Strategy and Rural Development Strategy). Increasingly these strategic planning exercises are being linked to the public expenditure planning process through the PER exercise and involve review by the PER Working Group..

The Budget Guidelines separate out resource ceilings by MDA, regions, and LGs. Ceilings are further broken down between personnel emoluments, other charges, domestically financed development expenditure and externally financed development expenditure. The Guidelines also include an analysis of the proposed sectoral allocation of resources broken down between MDAs, regions and LGs, with separate tables presented for total spending and domestically financed spending. However, the proposed sectoral allocations are not disaggregated into the indicative resource ceilings and guidelines provided to regions and LGs. The text of the Guidelines provides a more detailed analysis of proposed resource allocations to the MTEF priority sectors broken down between the major programmes. This identifies both funding requirements as proposed by the line ministries and the proposed resource allocations. However, there is not direct reconciliation of these allocations with the proposed sector allocations annexed to the Budget Guidelines document.

7.2 Organisational expenditure ceilings

The Budget Guidelines emphasise that MDAs and regions are required to adhere to the ceilings set out in the Budget Guidelines. However, in practice these ceilings may be adjusted where it is found that they have failed to take account of the spending implications of previously agreed policy commitments.

Nevertheless analysis of 2002/03 Recurrent Budget allocations in comparison with the MTEF resource ceilings shows significant variation. With an average deviation across major votes of 19.4% with the variation for non-wagebill costs of 32.3%. To some extent these variations changes in the overall aggregate allocations which for wagebill expenditures were 8.6% lower compared to the MTEF and for other recurrent costs 22.7% higher. However, discounting this effect by considering the variation in the share of each vote in the total budget compared to the MTEF still gives an average deviation of 12.3%. One conclusion therefore is that MTEF in Tanzania still has a considerable way to go in establishing a credible budgetary resource ceilings process.

Within each sub-vote allocations are directly linked to specific activities, targets and objectives. A single sub-vote may include a number objectives each of which may be linked to several targets. This results in detailed target setting although it does not provide wider performance indicators for the sector as a whole. The way in which targets are specified is often unsuitable for subsequent monitoring of achievement.

7.3 Costing and priority sectors

The Forward Budget proposals for 2002/03-2004/05 for the first time were prepared using the IFMS budgeting module. This has allowed proposals to be costed by activity at a very high level of detail and to include the specification of unit costs. There is currently no aggregation in the presentation of the budget proposals to the MoF resulting in very detailed and lengthy submissions (1,000 pages for the MoH, 180 pages for the MoAFS). In the view of the MoF’s Budget Department, some ministries had gone to excessive detail in their budget submissions and that more generally the level of detail went beyond that which could be effectively evaluated by the MoF.

Financing requirements in the priority sectors are explicitly considered in the Budget Guidelines and to this extent priorities are reflected in the setting of expenditure ceilings. However, during budget preparation there is currently no attempt to cross-check allocations against those proposed in the Budget Guidelines. The Budget Department is planning to do this exercise retrospectively for the 2002/03 Budget.

An analysis of ministry Recurrent Budget allocations for 2002/03 in five key priority sectors, (agriculture; education; health; law and order; water) shows that allocations were some 30% above the MTEF resources ceilings. Even discounting for the overall increase of 14% in the 2002/03 recurrent budget compared with the MTEF ceiling, this suggests that further prioritisation of expenditures towards the PRSP priority sectors took place during finalisation of the 2002/03 Budget.

8. The MTEF and the Budget Execution

8.1 Revisions during budget execution

Table 2: Comparison of Budgeted Expenditures with Outturns

	Tsh Billion					
		2000/01			2001/02	
	Budget	**Outturn**	**Variance**	**Budget**	**Proj. Outturn**	**Variance**
Total Expenditure	**1,256.1**	**1,272.9**	**1.3%**	**1,578.7**	**1,622.1**	**2.8%**
Recurrent	**942.6**	**986.6**	**4.7%**	**1,236.5**	**1,250.7**	**1.1%**
Interest	111.3	129.6	16.5%	119.6	125.3	4.8%
Wages & Salries	315.9	308.1	2.5%	356.3	346.6	2.7%
CFS, Parastatal Wages, TRA/CMS	143.6	141.1	1.7%	159.1	159.1	0.0%
Other	371.8	407.8	9.7%	601.6	619.7	3.0%
o/w Priority Sectors	*165.5*	*178.0*	*7.5%*	*237.3*	*300.3*	*26.6%*
Health	*32.7*	*36.7*	*12.3%*	*43.1*	*43.1*	*0.0%*
Education	*54.3*	*61.4*	*13.0%*	*82.5*	*129.8*	*57.3%*
Water	*4.9*	*6.0*	*22.9%*	*9.1*	*9.1*	*0.0%*
Other Social	*3.1*	*3.1*	*0.0%*	*16.6*	*31.5*	*89.5%*
Roads	*55.1*	*56.2*	*2.0%*	*63.8*	*64.7*	*1.4%*
Justice	*5.7*	*4.9*	*14.3%*	*9.2*	*9.2*	*0.0%*
Agriculture	*6.4*	*6.4*	*0.0%*	*9.3*	*9.3*	*0.0%*
Lands	*3.3*	*3.3*	*0.0%*	*3.6*	*3.6*	*0.0%*
Other Sectors	206.3	229.9	11.4%	364.3	319.4	12.3%
Development	**313.5**	**286.3**	**8.7%**	**342.1**	**371.4**	**8.6%**
Local	38.0	35.1	7.7%	50.2	50.2	0.0%
External	275.5	251.2	8.8%	291.9	321.2	10.0%

Source: Cross-Sectoral MTEF 2002/03-2004/-5 preseented at PER Consultative Meetings

Under the 2001 Public Finance Act, virements within ministry budgets between sub-votes, groups and items require approval by the Minister of Finance, who presents an ex-post report to Parliament. Virements between votes require prior approval of Parliament. Previously, virements within ministry votes were undertaken without prior reference to the MoF.

In 2000/01 recurrent expenditure outturns averaged 95% of budgeted allocations while development budget outturns averaged only 42% of budgeted allocations. When cash resources are insufficient releases are prioritised by the Budget Ceilings Committee with priority given to statutory payments, personal emoluments, utility charges and food for public institutions. In the allocation of the residual, priority is given to allocations for other charges in the priority sectors, which are generally covered in full. As a result releases for other charges allocations outside of the priority sectors can be subject to substantial cutbacks. For example releases of other charges to the priority sectors for the first 6 months of 2001/02 exceeded estimates by 16.5% while for the non priority sectors they were only 81% of estimates (BER 2001/02 Q2)

Virements and supplementaries are not a major source of in year budget revisions. In 2001/02 virements within ministerial supply votes amounted to only 1.2% of other charges allocations. Supplementary estimates increasing ministry recurrent votes amounted to 2.5% of the original recurrent estimates (personal emoluments and other charges).

There is greater deviation between allocations and outturns in the Development Budget. In 2000/01 locally financed development expenditures exceeded the original budget allocations by 8% while foreign financed expenditures fell below budget allocations by 9%. These differences reflect both the greater difficulties in accurately estimating project expenditures and difficulties in the recording of some donor financed expenditures. In practice, the Budget substantially underestimates the level of external project financing with only around 30% of externally financed project expenditures incorporated into the Budget.

The 2001 Public Finance Act addressed the issue of ensuring appropriate procedures for prior authorisation of virements (by the Minister of Finance) and supplementary estimates (by Parliament). However, in the former case the very detailed level to which the Budget Estimates are approved places inappropriate restrictions on budget managers in MDAs. For example vehicle operations and maintenance expenditures are often separately itemised in the Budget Estimates between service and repair costs, lubricants, diesel and petrol making it impossible for MDAs to reallocate between these items without requesting the authorisation of virement from the MoF. Approving the Budget at a more aggregated level of economic itemisation would resolve this problem, while still allowing MDAs to account for expenditures at a greater level of detail.

The MoF prepares a quarterly Budget Execution Report (BER). This provides an analysis of revenue and expenditure performance for the preceding quarter and cumulatively for the FY. It also includes figures for releases and actual expenditures for the major economic categories of expenditure including a more detailed breakdown for non-wage recurrent expenditure in the priority sectors. The quarterly BERs are submitted to Parliament and are also posted on the MoF's website.

MDAs are required to prepare annual action plans and quarterly reports for both their non-wage recurrent budget and for projects in the development budget. This includes a description of activities to be undertaken and of progress achieved. The reports also include information on financial performance (although this information is also be available from IFMS). The Budget Department indicated that there were considerable difficulties in getting MDAs to comply with these reporting requirements, particularly on recurrent expenditures. There would also appear to be scope for better integration of reporting requirements with the new budget planning structures under IFMS.

With the implementation of IFMS, financial management has been considerably strengthened making it more difficult for MDAs to incur unauthorised expenditure commitments. However, MDAs are not currently held accountable for achieving performance targets.

9. The MTEF and the Poverty Reduction Strategy

9.1 Integration of poverty reduction strategy processes and the MTEF/Budget

The Budget Guidelines include a section on the poverty reduction strategy. They also emphasise that: “strategic expenditures and resource allocations will continue to focus on specified key areas in poverty reduction”. The sectoral analysis in the Budget Guidelines is directly linked to the PRSP priority sectors and a breakdown of planned resource allocations between priority programmes is provided. The Guidelines also include a table summarising resource allocations to the priority sectors. Allocations for priority poverty reduction related programmes are not separately identified and ring-fenced in the Budget. Neither is any updated analysis of proposed allocations to the priority sectors included in the Budget presentation.
In the MoF, the Policy Department takes the lead role both in the preparation of the Budget Guidelines and in the preparation of the annual review of the PRSP. In line ministries responsibilities for PRSP co-ordination and MTEF/Budget preparation are similarly combined within the Policy and Planning Departments.

The PRSP Progress Report 2000/01 emphasises the role of the MTEF process in developing “a sound assessment of expenditure requirements, given the budget resource constraint” and that “a special effort was made to examine consistency between the PER and MTEF work and the costing of interventions for the poverty reduction programme” (p40).

To date the focus in both the MTEF and PRSP exercises has been on the costing of priority programmes, rather than considering financing requirements across the full range of government policies and expenditure programmes. The MoF acknowledges the desirability of moving to a comprehensive analysis so that spending requirements and priorities in other sectors can be more adequately addressed though the MTEF process.

The PRSP Progress Report 2000/01 noted that interventions for all priority sectors, except for agriculture, had been costed. It further noted that this had involved estimating “total resource requirements (that is current and development outlays) based on PER and MTEF efficiency and value-for-money criteria and considerations of budget expenditure priorities and constraints taking into account PRSP targets”. The analysis revealed that while expenditure requirements in health, education and HIV/AIDS could almost be covered in the 2001/02 Budget, there were substantial resource shortfalls in the roads sector and in the legal and judicial sector.
An updated comparison of financing requirements was included in the 2002/03-2004/05 Budget Guidelines. This showed that on average across the priority sectors 79% of spending requirements could be accommodated within the proposed MTEF sector resource ceilings.

The costing exercises on which these estimates are based have a number of limitations and it is possible that, as sector expenditure strategies and costings are developed to a greater level of detail, the resource gap could increase significantly necessitating some adjustment to poverty reduction targets.

Expenditure projections in the PRSP covered the 2001/02 to 2003/04 period and were linked to medium-term outcome targets. The expenditure projections were subsequently rolled forward by one year in the MTEF exercise. The longer term PRSP targets, to 2010 have not been fully costed.

Within the framework of the PRSP considerable emphasis has been given to measures to improve governance. These include: (i) adoption of a national anti-corruption master plan; (ii) extension of the operations of the Prevention of Corruption Bureau; (iii) engagement of the media in the implementation of the anti-corruption strategy; (iv) establishment of an Ethics Secretariat; (v) establishment of a Human Rights and Good Governance Commission; (vi) rolling out of FMIS; (vii) adoption of the new Public Finance Act and Public Procurement Act; and (viii) strengthening of Judiciary operations. Funding for these initiatives has been included within the priority sector allocations identified in the MTEF.

10. The MTEF and Local Government

10.1 Local government autonomy

Local government is primarily financed by sector subventions from central government covering education, health, water, works, roads and administration. Subventions are typically determined based on the number of workers and the level of infrastructure to be maintained and therefore reflect supply rather than demand-based criteria. LGs are required to report on expenditures quarterly. However, reporting on physical implementation is very limited. Reports are channelled through the regions to Central Government.

10.2 Matching of authority and accountability

Responsibilities are defined in the Local Government Act which specifies the functions to be carried out by LGs and the associated financial arrangements. However, in practice the arrangements for financing LGs have evolved out of the previous system of district administrations. Thus: (i) LG technical and professional personnel continue to be employed as civil servants and to be paid through the central payroll; and (ii) subventions are transferred without any special conditions attached (as would occur under a conditional grant financing system). Accountability for the appropriate use of funds is to the elected LG body. Central Government has no direct sanction in cases where sector subventions are misdirected, except to reduce allocations in subsequent years.

10.3 Local government medium term resource projections

Similarly, expenditure proposals are prepared on an annual basis with the MTEF process not yet having been introduced at the LG level. The MoF is considering how the MTEF process could be extended to LGs. However, proposals have yet to be developed and will need to be linked to more comprehensive reform of LG budgeting and financial management systems.

10.4 MTEF support for decentralisation

By focusing expenditure planning on sector resource allocations and priority programmes, rather than the budgets of the MDAs, the MTEF potentially provides a mechanism for ensuring an appropriate allocation of resources between Central Government, the regions and LGs. However, to achieve this will require greater emphasis during the preparation of the Budget Guidelines on analysing financing requirements and on setting out more appropriate criteria for the allocation of resources to regions and LGs.

11. Quality of Information

Under the 2001 Public Finance Act, MDAs are required to submit their final appropriation accounts to the Auditor General by 31st October of the following FY. The MoF submits the consolidated statement of accounts to the Auditor General by 31st December. The Auditor General submits to the President and Minister of Finance audited accounts to Parliament by March 31st.

IFMS allows for daily on-line updating of ministry expenditures and monthly updating of expenditure by regions (electricity and communications mean that only 14 out of 20 regions are currently on-line).

IFMS now being extended on a pilot basis to 28 LGs (out of 130+). It is currently not possible to monitor expenditure of LGs by function. IFMS allows for detailed reports to be prepared on costs by activity and programme etc. However, there is a problem of limited capacity in MoF and MDAs to specify and analyse IFMS reports.

Both public service reform and performance budgeting systems require the specification of outputs and targets. Internally MDAs make their own arrangements for reporting (e.g. the Accountant General's Department monitors its performance targets every 1-2 months).
An Action Plan (objectives – strategy – activity -input requirements - costs) is prepared by MDAs at the level of sub-vote (programme) after the appropriations are approved and sent to MoF. The Action Plan sets out activities for each quarter and costs. MDAs then prepare quarterly physical and financial monitoring reports and submit them to MoF. MDAs may also develop their own internal action plans. In the case of MoHA this runs to 400 pages.

Because targets and indicators are currently focused at the relatively detailed level of activities there are a very large number targets. Targets, even when aggregated at the programme level, tend to be specified at an operational level and may be difficult to monitor meaningfully (e.g. in health – tertiary referral services of good quality provided by 1 National, 2 Zonal and 4 specialised referral hospitals by 2005). This makes it difficult to assess progress towards achieving the more strategic targets and goals specified in the PRSP.

There is a need to establish a more integrated monitoring system covering the PRSP, the MTEF and Budget, and the Public Service Reform Programme. A study has recently been undertaken to look into this issue.

12. Conclusions and Recommendations

To a significant extent the success of the MTEF exercise in Tanzania can be linked to the underlying circumstances against which it has been introduced. This will influence the relevance and applicability of the Tanzania experience to other countries. Some of the key factors are discussed below.

(1) Strong leadership from the MoF

The MTEF has benefited from strong leadership from senior officials in the MoF, with the result that it has been regarded as a central element of the Budget planning process. Strong leadership has facilitated ownership and credibility of the MTEF within Government and improved co-operation with the donor community. Nevertheless, capacity constraints within the MoF raise questions about the pace with which the MTEF can be further developed and sustained.

(2) Imaginative use of the PER process

The MoF has also been instrumental in reorienting the PER process as a means of kick-starting and supporting the MTEF. Thus the PER has increasingly become a government-led exercise with the MoF chairing of the PER Working Group and donor agencies supporting analytical studies for the MTEF. Nevertheless, there are potential risks of donor agencies becoming too directly engaged in the MTEF and budget process. This suggests that a clearer separation may be needed between the donor funded technical assistance support provided for the MTEF exercise and the external stakeholder review requirements of the WB and donor community. The proposed move of the PER Secretariat from the WB office to the MoF suggests that this issue is being addressed.

(3) Progress with macroeconomic and fiscal stabilisatio

By the time that Tanzania started to introduce an MTEF, substantial progress has already been made towards macroeconomic and fiscal stabilisation. The basis of a realistic budget framework was in place and there was political willingness to address issues of expenditure prioritisation. With budgetary resources increasing, the focus of public expenditure management had begun to shift away from retrenchment towards the improvement of public services. This provided an environment conducive to the successful introduction of the MTEF.

(4) Previous attempts at medium-term expenditure planning

Officials in the MoF emphasise that the MTEF was not the first attempt at medium-term expenditure planning. Following the abandonment of five-year development plans in the early 1990s, Tanzania had introduced a three-year Rolling Plan and Forward Budget (RPFB). While the RPFB is perceived as having achieved limited success and of being too focused on the Development Budget, it nevertheless contributed significantly to the starting point from which the MTEF was introduced. In particular, the RPFB was instrumental to strengthening capacities for macroeconomic and fiscal forecasting through the development of MACMOD. Even the lack of success of the RPFB in reigning in line agency expenditure programmes had emphasised the need to put the recurrent budget centre stage.

(5) Role of the PRSP in setting expenditure priorities

One of the weaknesses of the RPFB was the absence of a strong policy framework against which to prioritise public expenditure choices. The MTEF has benefited from having the policies and priority programmes identified in the PRSP as the basis for prioritising the allocation of public expenditure resources. Integration between the PRSP and MTEF has been further facilitated by the central role of the MoF's Policy Department in the MoF in both exercises.

(6) Consolidation of budget responsibility.

Transfer of responsibility for the Development Budget to the MoF has also significantly facilitated the MTEF process by consolidating responsibilities for public expenditure planning and management within the MoF. Nevertheless, there have remained intractable problems in integrating externally financed development projects within a unified budget planning framework.

(7) Introduction of IFMS.

An important feature of the Tanzanian experience is that an integrated financial management system (IFMS) has been introduced concurrently with the MTEF reforms. This has meant that improvements in macroeconomic management and budget planning have been complemented by measures to strengthen budget execution and accountability. IFMS has also provided more timely and accurate information on budget implementation, allowing this to be fed back into rolling forward of the MTEF.

(8) Stakeholder involvement

Compared to other countries, the MTEF process in Tanzania emphasised the involvement of a wide range of stakeholders from a much earlier stage in it evolution. This has helped to raise the profile and credibility of the MTEF. To a considerable extent this broader stakeholder involvement has been built around the PER process and the annual PER Consultative Meeting that is attended by politicians, NGOs, civil society organisations, donor agencies and the media. A challenge for the MoF will be to ensure that the MTEF remains an inclusive process as it becomes less dependent on support from the PER.

12.1 Building better links with the annual budget process

Despite these considerable achievements the MTEF could be better articulated with the preparation of the annual budget. This would help to emphasise the role of the Budget as a key policy instrument, further focus public expenditure management towards strategic choices and enhance budget accountability and oversight. It would require distinguishing more clearly between two separate stages of the budget process: (i) the preparation of the MTEF setting out the strategic framework for public expenditure planning and management; and (ii) subsequent elaboration of the detailed annual budget proposals. These requirements are considered below.

Stage 1 – preparation of the MTEF

The aim of the MTEF stage of the budget process should be to set out the strategic parameters within which ministries and independent departments (MDAs) and local governments (LGs) subsequently develop their detailed budget proposals. The key requirements of this stage are: (i) to determine a realistic macro-fiscal framework within which public expenditure can be planned over the medium-term; (ii) to elaborate broad sector strategies that identify priority actions and their budget implications; and (iii) to set sector and institutional resource ceilings consistent with the budget framework and sector priorities.

Currently, these tasks are undertaken in the context of the preparation of the Budget Guidelines. However, in combining both an analysis of the budget framework and instructions for budget preparation, the role of the Budget Guidelines in providing a statement of the Government's expenditure policies and plans is somewhat diminished. Greater clarity could be achieved by separating out the MTEF from the budget instructions. The MTEF could then be considered and approved by Cabinet before being circulated to MDAs and LGs together with the budget instructions.

One consequence of such a separation would be to place greater emphasis on the preparation of the MTEF during the first half of the fiscal year. An assessment of the present process suggests a number of ways through which the exercise might be strengthened:

- Cabinet could become involved at an earlier stage. At present, Cabinet is asked to endorse the sector and institutional resource ceilings proposed in the Budget Guidelines, but it is not involved in the prior discussion of the key budget strategies and choices on which these ceilings are based. One possibility for strengthening Cabinet involvement would be to hold, in August or early September, a more informal workshop or retreat for Cabinet to review the key budget issues and choices at the outset of MTEF preparation.
- Although line ministries are involved through the Budget Guidelines Committee, the sector analysis during Stage 1 has so far been quite limited. Work done in reviewing sector budget strategies and issues under the PER has typically been commissioned and completed too late to feed into the Budget Guidelines exercise. This suggests two main requirements.
  - First, an updated expenditure strategy for each major sector could accompany each MTEF exercise. This might include a brief overview and review of current policies in the sector, identify public budget priorities and associated public expenditure management reform measures for the coming three year period, and provide guidelines for the allocation of resources within the sector. Since the analysis and supporting proposals would be sectoral rather than institution specific, preparation of the strategy would need to be undertaken by a Sector Working Group (SWG) in which key stakeholders were involved. In order to feed into the preparation of the main MTEF document, this work would have to be carried out primarily during the period July to early October. The finalised strategy could then be circulated as an annex to the main MTEF document with the aim of providing additional sectoral guidance to those responsible for preparing budgets in the MDAs, regions and LGs.
  - Second, the MTEF could be used to identify requirements for and schedule more detailed periodic analysis of specific sector-level expenditure issues such as major sector policy and programme reviews or more detailed reviews of particular expenditure programmes. To the extent that such analysis was to feed into the forthcoming MTEF exercise it would need to be completed prior to the finalisation of the sector expenditure strategies. This suggests that support through the PER process for such work should be scheduled during the period January-early September.
- The MTEF document approved by Cabinet could then become the basis for wider consultation:
  - Consideration could be given to presenting the MTEF to Parliament as a government policy document. This could be done either following approval of the MTEF by Cabinet, or as a supporting document when the annual Budget was presented. In the latter case, the MTEF would need to be updated to take account of any subsequent updating of the macro-fiscal framework and the final allocations proposed in the Budget.
  - The MTEF documentation, including supporting sector annexes and studies, could be presented at the PER Consultative Meeting, avoiding the need for preparation of a separate set of materials. Since the documentation would be available earlier, the timing of this meeting could be brought forward making it easier to incorporate its conclusions both into the detailed annual budget proposals and into the planning of the work for the next MTEF round.

<u>Recommendation</u>. Preparation of the MTEF should be undertaken during the first half of the fiscal year leading to the approval by Cabinet of an MTEF document that would then be circulated together with the Budget Instructions. The MTEF exercise should include the preparation of expenditure strategies by inter-agency SWGs. Consideration should also be given to: (i) holding a Cabinet retreat at the outset of the MTEF exercise in order to review budget strategies and choices; and (ii) submitting the MTEF to Parliament either prior to or with the presentation of the Budget.

Stage 2: Preparation of Detailed Budget Proposals

Currently, the term MTEF is used not only to refer to the strategic framework developed for the Budget Guidelines but also the detailed three-year expenditure proposals prepared by MDAs and regions as their submissions for the annual budget. There would appear to be two main disadvantages with this approach:

- It risks confusing the process of preparing detailed institution-based budgets with that of a more strategic MTEF process which considers policies, priorities and resource allocations at the sector level, and addresses the respective roles and resource allocation requirements of MDAs, regions and LGs. The objective during the subsequent preparation of the Budget should be for MDAs and regional administration to present detailed proposals that would then be evaluated for consistency with the wider sector MTEF.
- Detailed forward budget exercises carry the risk that agencies end up projecting forward existing resource allocations and fail to consider requirements for shifting resources between programmes to reflect sector policy and programme priorities. Setting indicative budget allocations for the outer years at the programme or sub-vote level, broken down between the major economic categories is likely to be more useful than presenting detailed forward estimates and could considerably simplify the process or budget preparation. Forward allocations at this level might first be identified in the MTEF and then updated during the course of budget preparation.

Recommendation. The term MTEF should no longer be used to refer to the preparation by MDAs and regions of their detailed budget proposals. The requirement for the presentation of detailed three-year forward budgets should be reviewed and consideration given to projecting allocations for the outer two years at the level of sub-vote or programme in order to reflect the strategic shifts in resource allocations identified in the sector MTEF. The indicative budget allocations for the outer two years (at sub-vote or programme level) should be included in the Budget Estimates in order to emphasise that the annual budget has been planned within the context of a wider medium-term expenditure plan.

12.2 Enhancing comprehensiveness

At an aggregate level, the MTEF is already comprehensive of virtually all public resources, the major exception being LG revenues. Thus the MTEF includes both development and recurrent budgets, covers external and domestic financing, and incorporates spending by central government, regions and LGs. However, in analysing and proposing resource allocations, the MTEF treats separately personnel costs, non-wage recurrent expenditure and development spending, with separate resource ceilings for each.
As a result the trade-offs between these different categories of public expenditure are not explicitly considered. Line ministries are primarily concerned with the allocation of resources for non-wage recurrent expenditure, since wagebill allocations are determined by the CSD while development expenditures are derived from existing commitments of donor project financing.

Sector Coverage

Currently the sector analysis contained in the MTEF is limited to priorities identified in the PRSP. Together these account for some 60% of planned expenditure in 2002/03 (excluding Consolidated Fund Services). One consequence is that spending priorities across significant areas of public expenditure are not being addressed through the MTEF analysis. Since these tend to be areas in which expenditures are being more severely constrained, prioritisation between programmes and cutting backing back on non-essential expenditures are of equal relevance to ensuring a more effective and efficient use of resources as in the PRSP priority areas.

Recommendation: The analysis of expenditure priorities in the MTEF should be extended to cover all sectors and not just the priority areas identified in the PRSP. This should involve the establishment of SWGs for those sectors that are not currently covered by in the MTEF.

Addressing trade-offs between personnel and other recurrent expenditures

There are of course good reasons why the government has to pay special treatment to the budgeting of personnel expenditures since centrally taken decisions on pay increases and pay reform affect allocations for personnel spending across the whole of government. Also as payroll expenditures represent a first charge on budgetary resources, it is important to ensure that these have been budgeted accurately to avoid the risk of arrears building up and threatening the integrity of the Budget.

However, these requirements should not detract from the desirability of MDAs considering explicitly, as part of their MTEF submissions, both their overall personnel requirements and the need for reassignment of posts between different departments and programmes consistent with the overall sector resource constraint. The proposals deriving from such an exercise could then be reviewed together with the CSD (for consistency with public service pay and reform policies) and the MoF (for consistency with overall budget strategy).

Recommendation: Sector MTEF submissions should contain sections analysing (i) staffing and payroll reform issues and their budgetary implications; and (ii) the appropriate balance between personnel, non-wage recurrent and development allocations within the overall sector resource ceiling.

Integration of the development budget

Better integration of the Development Budget within the MTEF will require that a number of budget management issues are addressed. These include:

- Fuller Coverage of Donor Financed Development Projects. It is estimated that in recent years only around half of all donor-financed project expenditure has been reflected in the Development Budget Estimates. The failure to include all externally financed projects in the Budget significantly undermines the comprehensiveness of the MTEF and of the budget planning process.
- Significant progress has been made with the 2002/03 Development Budget towards reflecting all donor financed project expenditures. However, this will have to be complemented by measures to ensure that project expenditures incurred outside of Government financial procedures are recorded in the public accounts. This will require improvements in the regular reporting of expenditure to the MoF by donor agencies and/or project implementation units.
- Relevance of the Medium-Term Perspective. Development projects, particularly those funded from external sources, involve considerable lead-in times during which they are prepared and appraised, and financing is sought. Subsequent implementation typically occurs over a number of years. One consequence is that expenditure decisions are in effect taken in a significantly longer-term context than can be provided by a three-year MTEF. Ensuring better integration of spending on development projects within the MTEF will therefore require:
  - Developing a longer term strategic expenditure planning framework within which new development projects can be identified and planned with the aim of ensuring that these are funded consistent with the priorities of the Government’s wider public expenditure priorities.

- Framing sector MTEF proposals within this longer term strategic expenditure planning framework thereby ensuring better integration between recurrent and project spending plans.
- Ensuring that an up-to-date inventory is maintained of all development projects. This should track total estimated cost, expenditure to date, and the planned phasing of future expenditures, so that these can be reflected in MTEF resource ceilings.
- Instigating a regular process of development budget review in which projects that are no longer considered as being of high priority or which are under-performing can be identified and remedial action can be taken.

- Financing of Recurrent Expenditures through the Development Budget. Many development projects, particularly those in the social and agricultural sectors, contain substantial elements of recurrent spending. This results in the true recurrent costs of public expenditure programmes being understated while in certain circumstances allowing MDAs to circumvent the MTEF resource ceilings by accessing additional project resources. This both reduces budget transparency and undermines the allocative role of the MTEF and budget process.
- Addressing this situation will require the application of the GFS economic classification to expenditures incurred under the Development Budget. This will present significant problems in the case of projects that are implemented outside of Government financial procedures where expenditures are currently recorded according to the donor's own accounting categories. However, application of the GFS classification is essential in order to ensure a coherent and comprehensive budget and public expenditure framework. One solution in such cases could be to require project implementation units to maintain a parallel set of accounts that follows the Government's budget classification[1].
- Adoption of a Common Programme Framework. A further issue preventing an integrated approach to management of the Recurrent and Development Budgets is the absence of a common programme classification for both capital and recurrent spending against which resource allocations are budgeted and recorded.

In the longer term the MoF should consider whether the present division between recurrent and development budgets should be retained or whether a single budget structure should be adopted within which recurrent and investment expenditure is distinguished through the GFS classification.

Recommendation: The MoF will need to back up its efforts to improve coverage of externally financed projects in the Budget with measures to: (i) ensure the recording within the government accounts of project expenditures incurred outside of Government financial procedures; (ii) apply the GFS economic classification to the development budget; and (iii) introduce a common programme classification to both recurrent and development budgets.

12.3 Local government expenditure programmes

Local governments account for around 20% of all recurrent expenditure (excluding Consolidated Fund Services). In priority sectors, such as health and education, LGs are responsible for close to 40% of all non-wagebill expenditures. However, to date there has been quite limited coverage of LG expenditure programmes within the MTEF. This raises questions over the extent to which the expenditure programme reforms being identified through the MTEF process are being incorporated into budget planning at the lower levels of government.

- Extent to which LG spending requirements are taken into consideration in the development of sectoral MTEF proposals. An important role of the MTEF exercise should be to consider the appropriate distribution of the overall sectoral resource envelope between MDAs, regions and

[1] The requirements could be considered as a specific issue during project preparation and appraisal with Government approval of the project made conditional on satisfactory accounting arrangements being agreed.

LGs. Current MTEF procedures emphasise the development of three-year forward budgets by MDAs, and as a result do not address adequately the issue of the distribution of resources between the different levels of Government. The proposals made above for developing sector expenditure strategies would address this requirement more adequately. Specifically, the SWGs should advise on the appropriate level of sectoral resource transfers to LGs consistent with the wider framework of sector policies and spending priorities. In order that LG perspectives are adequately taken into account, the SWGs should include representation of LG interests in their membership.

- Criteria for distribution of resources among LGs. The MTEF exercise also provides an opportunity for reviewing the criteria used in allocating subventions between LGs and for proposing changes. The planned harmonisation of the fiscal years of central and LGs, will require that details of proposed resource allocations are made available to LGs earlier so that they can be reflected in the planning of LG budgets for the forthcoming year. The MTEF could be used as the instrument for proposing these allocations and communicating them to LGs.
- Ensuring the resources allocations reflect priorities identified in the MTEF. Further measures can be taken to try to ensure that resources allocated to LGs are utilised in ways that are consistent with sectoral expenditure priorities identified in the MTEF exercise.
  - First, the proposed sector expenditure strategies could be used to provide more detailed guidance to LGs on how resources are should be allocated and managed.
  - Second, releases to LGs could be linked to quarterly progress reports that demonstrate that resources have been used for their intended purpose.
  - Third, periodic inspections and expenditure tracking studies could be used to highlight problems in the management of resources and the extent to which they are reaching their intended end users.
- A number of expenditure tracking studies have already been undertaken in the context of the PER exercise. These have highlighted problems with resources reaching their intended users. The sector expenditure strategies could provide a mechanism for translating such findings back into improved guidance to LGs.
- Establishing an MTEF process for LGs. In the longer term, it would be desirable for LGs to be able to plan their own expenditure programmes within a medium-term framework. Uganda, where district MTEFs have recently been introduced with some success, may provide useful lessons of the potential benefits and pitfalls of such an approach. However, the introduction of a local government MTEF process in Tanzania would be a more complex undertaking given the larger number of geographically disbursed LGs. More importantly such an initiative should be undertaken a part of a wider set of measures to strengthen LG capacities for budgetary planning and management. It is understood that these capacities remain quite limited and that substantial progress will have to be made in strengthening LG budget management before the introduction of an MTEF process can realistically be considered.

Recommendation: The issue of resource allocation between the different levels of Government should initially be addressed through the proposed MTEF Sector Expenditure Strategies and through a review of the criteria for allocating subventions to individual LGs. These should also provide more detailed guidance to LGs on resource allocation and management consistent with the realisation of sector policies and strategies.

Procedures for monitoring the use of sector subventions to LGs should be strengthened. This might involve the introduction of a better-specified conditional grant mechanism that more tightly linked releases to progress reports.

Establishment of a local government MTEF process should only be attempted in the context of a wider set of measures to strengthen budget management and accountability, and is unlikely to be feasible at the present time.

12.4 Linkage between the MTEF and PRSP

Considerable emphasis has been given to the role of the MTEF in costing expenditure requirements under the PRSP. The PRSP Progress Report 2000/01 also noted that interventions for all priority sectors except for agriculture had been costed. This analysis revealed that while expenditure requirements in health, education and HIV/AIDS were for the most part adequately covered in the 2001/02 Budget there were substantial resource shortfalls in the legal and judicial sector. This suggests the need for further strengthening the linkage between the MTEF and PRSP. There are a number of ways in which might be achieved.

- First, it is not clear how adequately the public expenditure implications of the targets identified in the PRSP have been costed over the full-term of the PRSP to 2010 and the extent to which the MTEF programme costings are consistent with these longer-term requirements. The forthcoming PRSP Progress Report could consider this issue and whether it may be necessary to adjust PRSP targets to take account of updated information on costings and likely resource constraints. Such an exercise could provide a longer-term perspective within which to plan resource allocations under the MTEF and programme future project assistance.
- Second, although allocations for the priority sectors and programmes are identified in the MTEF, it is not easy to track these through to subsequent resource allocations in the recurrent and development budgets. In finalising the Budget Estimates, the Budget Department in MoF does not at present cross-check allocations for the priority sectors and programmes with those proposed in the MTEF. Developing a consistent programme structure for both the recurrent and development budgets would facilitate such analysis.
- Third, the present practice of prioritising releases of non-wage recurrent expenditures to the PRSP priority sectors and programmes results in increased uncertainty over whether and when non-priority programmes will receive funding with resultant risks to the efficiency and effectiveness with which resources can be utilised in these programmes. The very substantial share of budgetary resources allocated to the priority programmes compounds these uncertainties. This suggests a requirement for a more balanced approach to prioritising budget releases, perhaps guaranteeing the share of resources to be released to the priority sectors.

<u>Recommendation</u>: The forthcoming PRSP progress report should consider to what extent PRSP targets may need to be phased back to fit within the expected availability of resources. Allocations to PRSP priority programmes should be more easily identifiable in the Budget through the adoption of a common programme structure for both the recurrent and development budgets. A more balanced approach to budget releases should be adopted to provide greater predictability in resource flows to non-priority programmes.

12.5 Streamlining budget planning, execution and monitoring

As was noted above, the revision of public finance and procurement legislation together with the introduction of IFMS have enabled Tanzania to considerably strengthen procedures for budget management and execution concurrently with the introduction of the MTEF. However, a feature of budget procedures in Tanzania is the considerable detail at which expenditures are planned, executed and monitored that is sometimes at odds with the more strategic approach to budget management implicit under an MTEF. There could thus be significant gains from considering how these processes might be streamlined.

- Specification of Budget Allocations. The level of detail at which allocations in the Budget Estimates are specified significantly increases demands on budget preparation and places inappropriate restrictions on MDAs during subsequent implementation of the Budget. For example, vehicle operations and maintenance expenditure may be separately itemised between service and repair costs, lubricants, diesel and petrol making it impossible for MDAs to reallocate between these items without the authorisation of a virement from the MoF. Approving the Budget at a more aggregate level of detail would resolve this problem. MDAs could still be required to account for expenditures at a greater level of disaggregation in the GFS system, thereby allowing subsequent ex-post analysis of expenditures to be undertaken at a greater level of detail (e.g. to determine the proportion of vehicle operations and maintenance spending that went on fuel).
- Monitoring of Budget Implementation. Reporting on physical implementation has been a feature of the Tanzanian planning and budgeting system for many years. MDAs are required to prepare annual action plans, quarterly reports and annual reports for both the non-wage element of their recurrent budgets and for projects under the Development Budget. These reports can be very lengthy – for example the annual report of the MoH was in excess of one hundred pages of matrix format tables. Reporting tends to focus on the use of inputs at the activity level rather than on outputs at the programme level. One consequence is that the usefulness to recipients is often quite limited. A review of current reporting procedures and requirements could help to identify how implementation reports could be made more strategic in their focus, better linked to the realisation of outputs, and more closely integrated with IFMS.
- Co-ordination of Target-Setting and Reporting Requirements. An analysis of the requirements for target setting and reporting under the performance management element of the public service reform programme suggests that there is a risk of significant overlap with requirements for reporting on implementation of the Budget work plan to the MoF. Similarly, there are potential overlaps with monitoring for the PRSP undertaken by the Vice-President's Office, although these tend to be at a more aggregated level. This potential problem has been recognised and a study recently been undertaken to assess its significance[2]. To the extent feasible, the agencies involved should share information rather than duplicate reporting requirements.

Recommendation: In order to eliminate inappropriate detail in budget preparation, facilitate budget implementation and reduce the need for virements, the Budget Estimates should be approved at a more aggregate level of the GFS economic classification.

Requirements for reporting on implementation progress should be reviewed and based on the use of a smaller number of relevant output indicators. In designing reporting systems, account should be taken of the differing information requirements of programme managers, line ministry policy and planning units and the MoF.

The potential overlaps in reporting requirements for public expenditure management, the public service reform programme and the PRSP should be assessed and the possibilities for better integration and co-ordination investigated with the aim of reducing demands on programme managers.

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[2] Although the study findings were not available to the Consultant.

Annex 1: Tanzania MTEF and Budget Calendar