State of Macrofiscal Policy Framework and Public Financial Management in Tanzania: A Research Agenda

POLICY RESEARCH
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1 Introduction

Tanzania has since the 1990s undertaken a comprehensive reform agenda focusing on several areas including macro-fiscal and public financial management policies that address systems and processes that form fiscal structures. This focus had as its broad objective to contribute to the achievement of macroeconomic stability and sustainable and inclusive growth and poverty reduction, within a framework of fiscal sustainability. While the objectives of fiscal policy are similar across countries, country specifics make it necessary to have fiscal frameworks that take into consideration specific country characteristics and challenges. In the Tanzanian case critical challenges around revenue, expenditure, financing and debt management have been prominent in the process in view of their importance in achieving macroeconomic development and social needs. Thus, some areas of focus have included macro-fiscal targets such as debt-to-GDP, tax-to-GDP, and expenditure-to-GDP. The focus has also been on openness in the budget process to enhance transparency and accountability, and on fiscal decentralization as it relates to the inter-governmental fiscal relations. The understanding has been that having a good framework in place provides the foundation for good budgeting including its credibility and sound fiscal policies that ensure fiscal sustainability and macroeconomic stability, with a view to bring about overall development to the country.

Tanzania's ambition is to achieve sustained structural transformation, led by industrialization as clearly spelt out in the Second Five Year Development Plan (FYDP II: 2016/17 – 2020/21). Underlying this structural transformation ambition is the government's pursuit for increased investment in infrastructure and human resource development. The goals and objectives set out in the FYDP II will require significant further improvements in economic governance and overall government effectiveness in resource mobilisation and utilization. There is evidence that reforms implemented over the last two decades have contributed to a stronger growth trajectory, enhanced revenue mobilisation and higher public expenditure. However, significant challenges remain as increased revenues don't much with the current drive to close the infrastructure gap, at the time when donor support is waning, and concessional borrowing is in decline forcing the Government to borrow commercial, which is expensive and exposes the country to debt-servicing challenges and the likelihood of experiencing both maturity mismatch (short-term credit with no revenue stream to repay – solvency challenge) and currency mismatch (as borrowed money is spend on non-tradeable infrastructure investments which don't generate forex – liquidity challenge).

There are concerns also regarding sustainability of the reforms, mainly the survival of the institutional set up and systems that came about as a result of investments in the reforms, thus threatening fiscal sustainability. The IMF (2018) report on Financial System Stability Assessment (FSSA) observes that Tanzania is currently experiencing a slowdown in its economic momentum, faces difficulties with fiscal management, which lead to build up of expenditure arrears. In its report for 2016/17 fiscal year, the CAG observes Government's non-adherence to parliamentary approvals when it comes to budget releases from the Consolidated Fund to delivery units (Ministries and Independent Departments), and an increasing public debt which in 2017 stood at 37.4%; including challenges encountered in financing development expenditure.

Thus, despite demonstrable achievements obtained from reforms, challenges remain and must be addressed to pave way for more effective and efficient macroeconomic management and overall credibility of financial management. To achieve this requires in-depth analysis of the situation, built on a sound and evidence-based analytical work, wider and more informed policy dialogues on the requisite economic governance; with a view to determine appropriate policy advise. This will ensure (a) strengthening of institutional capacity to undertake research and generate data and evidence on critical economic governance, fiscal policy issues and business environment, (b) enabling better use of research and evidence to inform policies and decision making on macro-fiscal matters in line with the goals and objectives outlined in the FYDP II through stakeholder engagement, and (c) providing a platform for policy dialogue and influence on key macro and fiscal policy issues.

This status report is geared, therefore, towards delivering specifically on that, i.e., to come out with researchable questions that will facilitate carrying out research with a view to get better insights on the goings on as far as the macro-fiscal policy framework and its related instruments are concerned. The main areas of focus are budget credibility, budget execution, debt management, public expenditure management and financial accountability, and inter-governmental fiscal relationships.

2 Macro-fiscal and public financial management: current status

It is observed that Tanzania's recent economic performance has been mixed and that the outlook is subject to emerging risks (IMF, 2019). Although GDP data point to continued strong growth, other high frequency data suggest a weakening of economic activity. Tax revenue collections are lower at 12.8 of GDP. In 2016/17 for instance the government planned to collect a total of 15,105.1 billion shillings as tax revenue, but actual collection was 14,055.2 billion shillings (93.5%) (see tables 1 and 2). Credit growth is also declining, reflecting in part banks' rising nonperforming loans (NPLs). Thus, although in absolute terms, the Government continued to record good performance in domestic revenue collection, largely attributed to improvements in tax administration, revenue collection has fallen short of estimates and is still far below that required to finance Government expenditure which has also been increasing even faster, causing widening of the resource gap (fiscal deficit, in the region of 3 to 4% of GDP, with or without grants) [1].

Table 1: Trends in selected macro indicators (2013/14 – 2018/18) (Percentages)

	2013/14	2014/15	2015/16	2016/17
Total Revenue to GDP	12.5	11.6	13	13.2
Tax Revenue to GDP	12.3	11.6	12.8	12.8
Total expenditure to GDP	18.5	17.1	18.3	17.2
Current expenditure to GDP	13.3	12.8	13.8	10.6
Development expenditure to GDP	5.2	4.4	4.5	6.6
Official grants to GDP	2.1	1.2	0.5	1.0
Deficit to GDP (excluding grants)	-5.4	-4.5	-4.0	-2.5
Deficit to GDP (including grants)	-3.3	-3.3	-3.5	-1.5
Foreign borrowing to GDP	3.0	2.4	1.2	1.6
Domestic bank borrowing to GDP	1.3	0.6	1.6	-1.0

Source: *Ministry of Finance and Planning*

1 *The agreed target fiscal gap within the East African Community (EAC) is 3 percent.*

2.1 Macro-fiscal issues for consideration

The widening fiscal gap raises concerns on the part of government. Of more concern is the fact that the generic means proposed by the government for closing the gap has been to look for grants and concessional borrowing from Development Partners (DPs), external non-concessional borrowing and domestic borrowing. Each source has its repercussions in terms of accessibility and conditionalities. DPs sources are not predictable as evidenced by the shrinking amounts year after year, domestic borrowing is tied with a cap of 1 percent of GDP to avoid crowding out private investment, and external non-concessional borrowing have high interest rate, and most are of short maturity and the fact that they are to finance non-tradable infrastructure investments. Box 1 provides Government sentiments as far as financing sources are concerned. There needs, therefore, to be other innovative ways of financing Government budget and close the resource gap. Proposed sources by the government include issuance of the infrastructure bond and Public Private Partnership (PPP) arrangements. It would be important to study and see how these have featured in government budgets and implications thereof; and whether other modalities exist, or the kind of reinforcements that can be made in the administration of the existing sources.

Box 1: Review of Budget Implementation for 2016/17

Implementation of the Government budget during 2016/17 was characterized…shortfalls mainly in disbursements of GBS and external non-concessional loans. Given such shortfalls, the Government resorted to more domestic borrowing to finance key expenditures.

1. Domestic Revenue

The Government estimated to collect domestic revenue amounting to Shilling 18,463.5 billion. Actual collections for 2016/17 were Shilling 16,639.8 billion, equivalent to 90.1 percent of the target.

2. Tax Revenue

The Government estimated to collect tax revenue amounting to Shilling 15,105.1 billion, equivalent to 13.8 percent of GDP and the actual out-turn was Shilling 14,126.5 billion, equivalent to 93.5 percent of the estimate. Despite the underperformance against the target, the actual out-turn was 13.2 percent higher than the actual collection of 2015/16. In terms of tax yield, collections in 2016/17 were 14.2 percent of GDP compared to 13.2 percent of GDP in 2015/16. This achievement was mainly attributed to close monitoring of the existing revenue potentials, tax arrears recovery measures, increased compliance by Government institutions in withholding tax upon payments for goods and services.

3. Non-Tax Revenue

Actual non-tax revenue collection (excluding LGAs own sources) was Shilling 2,072.9 billion against the target of Shilling 2,718.6 billion equivalent to 76.3 percent. Contributions, dividends and excess capital redeemed from Government Entities were Shilling 893.9 billion against the target of 1,306.5 billion. The performance was attributed mainly by dividends from parastatals and collections from some MDAs as a result of use of revenue collection electronic systems. LGAs collection from own sources was Shilling 511.7 billion, equivalent to 76.0 percent of the target.

Source*: Extracted from Guidelines for the preparation of Plans and Budget 2018/19*

Macroeconomic policies need also to be closely coordinated. The government's drive to step up budget implementation, particularly in development spending has implications in the broader area of macroeconomic management. The monetary policy stance and liquidity forecasting, and management will need to be closely coordinated with fiscal developments. Strong growth and job creation are needed to address high poverty and a large underemployed youth population in the wake of the youth-bulge that characterizes most developing countries. Infrastructure gaps and the business climate have also become increasingly challenging and require response. Sustained reforms will be needed to achieve the strong private sector-led growth envisioned by the government's development plan. Budget credibility and implementation need to be improved and arrears paid and prevented form occurring. Additional domestic revenue needs to be mobilized through tax policy and administration reforms, while improving the functioning of the VAT refunds system2. Addressing the high stock of NPLs needs also be a priority to reduce financial sector vulnerabilities and revive credit growth to the private sector.

Table 2: Macro-fiscal statistics (TZS, '000)

	2013/14	2014/15	2015/16	2016/17
Total revenue	**10,182,455**	**10,957,765**	**14,048,034**	**16,639,831**
Tax revenue	9,294,417	9,891,680	12,410,951	14,055,173
Non-tax revenue	572,810	706,001	1,211,231	2,072,941
LGA revenue	315,228	360,084	425,852	511,718
Total expenditure	**13,958,162**	**14,603,714**	**17,759,598**	**18,898,690**
Current expenditure	**10,032,120**	**10,893,486**	**13,420,045**	**11,625,866**
Wages and salaries	4537816	5255359	6553257	6367147
Interest payments	977082	1261002	1486276	1715429
Domestic	742728	917033	1009506	1215582
Foreign	234354	343970	476769	499847
Other goods, services and transfers	4517222	4377125	5380512	4184355
Development expenditure	**4,751,576**	**4,721,095**	**5,857,281**	**4,684,202**
Domestic financed	2,121,212	2,264,506	2,904,530	5,141,451
Foreign financed	1,804,831	1,445,722	1,435,023	2,131,374
Overall fiscal balance	-3,775,707	-3,645,949	-3,711,564	-2,258,859
Overall fiscal balance (including grants)	-2,188,059	-2,621,816	-3,357,248	-2,105,546

Source: *Ministry of Finance and Planning*

2 This is in line with the current drive at Domestic Resource Mobilization (DRM) requiring developing countries to raise and spend own resources; considered to set a long-term path to sustainable budget expenditures, fosters ownership, and is thus a critical path out of aid dependence.

2.2 Public financial management

Public financial management policies relate inter-dependent agencies, systems and processes that form the fiscal structures. The objective of carrying out reforms in this area is to improve inter- and intra-sectoral allocation, to increase budgetary predictability for line ministries, and to enhance fiscal discipline. The need for deepening reforms of the public finance management is emphasized in policy documents including Vision 2025. The key elements of the PFM reforms aim to achieve fiscal sustainability and balance in the public economy; restructuring and reallocations for growth and poverty reduction; and improved public sector performance, efficiency and effectiveness in public administration leading to improved service delivery and development results for Tanzanians. The legal and regulatory arrangements for PFM in Tanzania are as outlined in Box 2.

Within the PFM arena, several underlying reforms have been initiated, for example, those related to an improved budget process along with simplified procedures, automated spending commitment controls, financial reporting and other finance systems, legal reforms of financial management, ethics, procurement, introduction of modern audit methods and techniques. Some institutional reforms have also been undertaken to promote good governance and the fight against corruption. These initiatives have resulted in some improvements, as measured by international benchmarks and diagnostic reviews.

Box 2: Legal and regulatory arrangements for PFM in Tanzania

PFM Area	Relevant Legislation
Statutory arrangements	- The Constitution of United Republic of Tanzania, 1997, Cap.2 - Standing Orders of the National Assembly, revised 2016
Budget preparation, execution, reporting accounting.	- The Budget Act, 2015, Cap 439 - Public Finance Act, 2001, amended 2004 & 2011, Cap. 348 - Accounting Procedures Manual 2016
Tax Administration	- Tax Administration Act, 2015, Cap. 438; Regulation, 2016 - Value Added Tax Act, 2014, Cap. 148; Regulations 2015 - Income Tax Act, 2006, revised 2008, Cap. 332; Regulation 2014 - Electronic Fiscal Device Regulation 2012 - Excise Management and Tax Act 2006, revised 2008, regulations 2013 - Motor Vehicle (Tax Registration & Transfer) Act, 2006, Cap.124 - Tanzania Revenue Authority Act, 2006, Cap. 399 - Tax Revenue Appeals Act, 2006, Cap. 408 - Other acts and regulations for specific taxes.
Public sector entities	- Treasury Registrar (Powers & Functions) Act, 1959, amended 2010, Cap. 370 - Public Corporations Act, 1992, amended 2002, Cap. 257
Public Procurement	- The Public Procurement Act, 2011, amended 2016, Cap. 410.
Public Debt	- Government Loans, Guarantees & Grants Act, 1974), amended 2004 and 2017, Cap. 134
Development partners	- National framework for managing Development Cooperation
PPP- Public Private Partnerships	- Public Private Partnership Act 2010, Cap.103; and regulation 2011
Parastatals	- Treasury Registrar (Powers & Functions) Act, 1959, amended 2010, Cap. 370. - Multiple Parastatal Acts
Local Government Finances	- Local Government Finance Act 1982, amended 2016, Cap.290
Internal Audit	- Public Finance Act 2001, amended 2004 & 2011, Cap. 348 - Internal Audit Manual - Internal Audit Committee Guidelines
External Audit	- Public Audit Act, 2008, amended 2011, Cap. 418
Payments	- National Payment Systems Act, 2015, Cap. 342
Internal control	- Tax Administration Act, 2015, Cap. 438; Regulation, 2016 - Tanzania Revenue Authority Act, 2006, Cap. 399 - Tax Revenue Appeals Act, 2006, Cap. 408 - The Public Procurement Act 2011, amended 2016, Cap. 410 - Public Finance Act 2001, amended 2004 & 2011, Cap. 348 - Internal Audit Manual - Public Audit Act 2008, amended 2011, Cap. 418

***Source**: PEFA Final Report; October 2017*

However, there are indications that the reforms undertaken had not fully reached the desired end results; many challenges remain. In essence, the PFM system is still inadequate; a number of improvements are needed before it becomes an effective and efficient management tool for improved public service delivery. Efforts to mobilize public financial resources have encountered challenges relating to tax collection, now deviating by a wide margin from projections; and accounting and reporting of non-tax revenues. There are still challenges to comprehend fully the costing of priorities into the Government budget allocations and the implementation and credibility of the recurrent and development budgets across key sectors, with unbearable mismatches as observed by the CAG. What does this say as far as the credibility of the PFM system is concerned? Certainly, this becomes an area of research interest.

2.2.1 Budget management

Budget management is a process that involves the annual budget cycle events and activities. The budget process involves budget formulation, scrutiny of budget proposals and dialogue, budget execution, and budget monitoring and control. Essentially it involves the determination of resources and their uses for attainment of government objectives. A sound budget serves as a tool for economic and financial management and accountability and serves also as a mechanism for allocation of resources among different needs and priorities as well as bringing economic stability and growth. Key players in the budget process have been the Ministry of Finance and Planning, Public Expenditure Review (PER) Working Groups; and the Sector or Line Ministries. Other key players include, the Prime Minister's Office; Local Government Authorities; Non-State Actors, the private sector; the cabinet and the Parliament.

The budget process is governed by several laws and policies as shown in Box 2; including the Constitution which outlines the legislative function and the role of various bodies involved in the management of public finances, specifically Parliament (the Legislature), the President (the Executive) and the Controller and Auditor General (CAG). Others are The Public Finance Act, The Public Procurement Act, The Annual Appropriation Act, and The Annual Finance Act which grants powers to the Minister of Finance to impose taxes. There are also The Local Government Finance Act, 1982 (as amended in 2000) which sets out requirements for Local Government Authorities to meet while drawing up their annual estimates of revenue (income) and expenditure (spending); and The Public Audit Act which empowers the CAG as an oversight body.

The budget process begins with the preparation of The Plan and Budget Guidelines (PBG) as per Section 21 of the Budget Act No. 11 of 2015 and the Budget Regulations of 2015. The main objective of PBG is to guide mobilization and allocation of financial resources for the implementation of Annual Development Plans and Budget. Thus, PBG provides guidance to all Accounting Officers in Ministries, Independent Departments and Agencies (MDAs), Regional Secretariats (RSs), Local Government Authorities (LGAs), and Public Institutions and Statutory Corporations (PISCs) to prepare their plans and budget in line with the Government Acts, Regulations, Circulars and other Government provisions.

Actual implementation of the budget has always encountered challenges mainly due to the fact that actuals have always diverged from expectations as shown in table 3. For instance, although for 2016/17 the Parliament approved 29,539.60 billion shillings, actual disbursement was only 23,417.80 billion shillings, i.e., only 79.3 percent of approved budget; 79.8 percent for 2017/18.

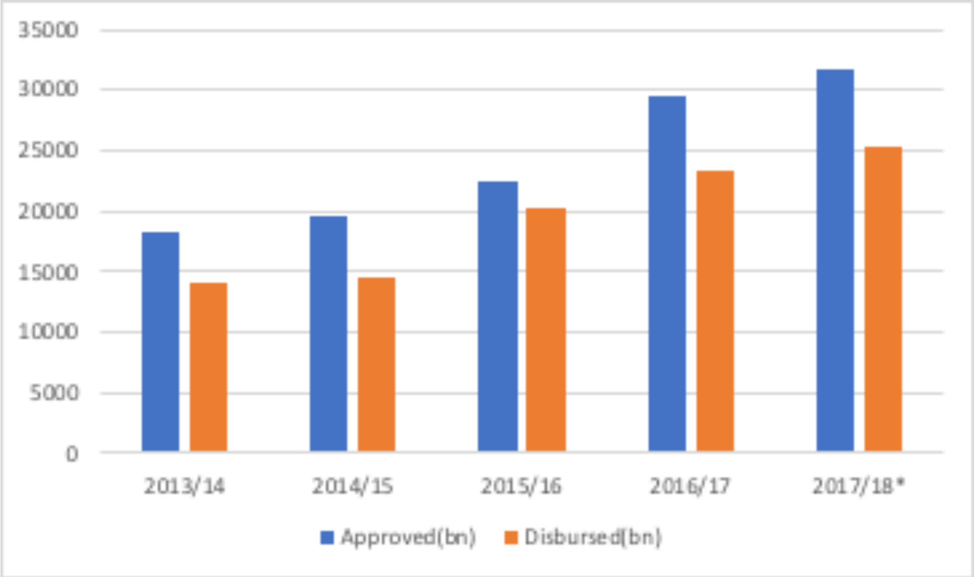
Table 3: Trends in budget execution

Year	Approved(bn)	Disbursed(bn)
2013/14	18,248.98	14,011.10
2014/15	19,553.33	14,603.70
2015/16	22,495.50	20,274.50
2016/17	29,539.60	23,417.80
2017/18	31,711.90	25,321.70

Source: *Ministry of Finance and Planning Budget Execution Reports*

The main reason is revenue collection that is below target. In the same year the Government estimated to collect domestic revenue amounting to Shilling 18,463.5 billion. Actual collections were Shilling 16,639.8 billion, equivalent to 90.1 percent of the target. Estimated tax revenue was at Shilling 15,105.1 billion, equivalent to 13.8 percent of GDP, but the actual out-turn was Shilling 14,126.5 billion, equivalent to 93.5 percent of the estimate. Non-tax revenue collection (excluding LGAs own sources whose collection stood at 76 percent) was 76.3 percent of the target (see table 2).

Figure 1: Trends in budget execution



This has been a repeated phenomenon through the years and impacts on achievement of expected results. There has also been shortfall in external financing, forcing the Government to resort to more domestic borrowing to finance key expenditures. The Country Policy and Institutional Assessment (CPIA) gives Tanzania a low score of 3.0 on the Quality of Budgetary and Financial Management (table 8). To what extent have these impacted on service delivery and overall development of the country? Are there any policy measures that can be taken to rectify the situation? A research agenda needs to examine these and other issues around revenue management and credibility of the budget preparation and execution process, including the strength and influence of institutions (including Parliament and National Audit Office) that deal with these issues.

2.2.2 Public debt management

Public debt management refers to the strategies the national authority employs to manage public debt. The objectives of public debt management are to ensure that the government's financing needs and settling of obligations meet the medium-term objective of low borrowing costs, prudent risk exposure and promotes an active domestic debt market. In a broader macroeconomic context for public policy, governments should seek to ensure that both the level and rate of growth in their public debt is fundamentally sustainable and can be serviced under a wide range of circumstances while meeting cost and risk objectives.

The objective is to ensure that public sector indebtedness remains on a sustainable path and that a credible strategy is in place to reduce excessive levels of debt. It's important, therefore, that the fiscal authorities are aware of the impact of government financing requirements and debt levels on borrowing costs. Examples of indicators that address the issue of debt sustainability include the public sector debt service ratio, and ratios of public debt to GDP and to tax revenue.

One of the important factors to observe as far as debt management is concerned is debt sustainability. The Government Loans Guarantees and Grants Act CAP 134, requires the Government to conduct an annual Debt Sustainability Analysis (DSA) which, among other things, indicate the trend of various debt sustainability indicators including description of economic situation in different scenarios and recommend measures for maintaining sustainable level of debt. DSA is a structured examination of a country's debt to determine credit worthiness; thus, providing pointers as to whether a country's current borrowing strategy may lead to future debt-servicing difficulties or not. The Debt Sustainability Framework uses thresholds of debt burden indicators; which in turn depend on the quality of a country's policies and institutions as measured by the World Bank under the Country Policy and Institutional Assessment (CPIA) [3].

CPIA classifies countries as:

- *Weak with CPIA score of less than 3.25*
- *Medium with CPIA score between 3.25 and 3,75, and*
- *Strong with CPIA score greater than 3.75*

In the case of Tanzania, as of June 2017, the public debt stood at USD 26,115.2 million compared to USD 22,320.76 million recorded in the corresponding period in 2016, which was an increase of 17.0 percent (URT, 2017) (see table 4 and figure 2). Out of the debt, USD 7,643.2 million is domestic and USD 18,472.0 million is external. The external debt comprises of public and publicly guaranteed debt of USD 14,800.5 million and private external debt of USD 3,671.50 million.

3 The CPIA consists of 16 criteria grouped in four equally weighted clusters: Economic Management, Structural Policies, Policies for Social Inclusion and Equity, and Public Sector Management and Institutions. For each of the 16 criteria, countries are rated on a scale of 1 (low) to 6 (high). The scores depend on the level of performance in a given year assessed against the criteria, rather than on changes in performance compared with the previous year. The ratings depend on actual policies and performance, rather than on promises or intentions. The ratings reflect a variety of indicators, observations, and judgments originated in the World Bank or elsewhere. For details, see: www.worldbank.org/africa/CPIA.

Table 4: Status of public debt

Year	%	USD (millions)
2013/14	33.7	15,704.6
2014/15	34.8	16,900.9
2015/16	34.7	22,320.8
2016/17	37.4	26,115.2

Source: *Bank of Tanzania*

Results of Debt Sustainability Analysis conducted in November 2016 indicates that the present value of public debt to GDP was 32.5 percent (2016/17), 31.2 (2017/18) and 30.8 (2018/19) (see table 5); implying that Tanzania's debt remains at low risk of debt distress.

Table 5: Debt Sustainability Indicators

External Public Debt	2015/2016	2016/2017	2017/2018	2018/2019	Threshold
PV of Debt to GDP	19.9	19	18.8	18.6	40
PV of Debt to Export	97.7	94.2	98.2	100.6	150
PV of Debt to Revenue	145.3	111.46	114.3	107.6	250
Debt Service to Exports	7.8	9.2	8.4	8.7	20
Debt Service to Revenue	11.5	11	9.7	9.3	20
Total Public Debt					
PV of Public Debt to GDP	34.2	32.5	31.2	30.8	56
PV of Public Debt to Revenue	249.9	178.5	177.6	168.3	
Debt Service to Revenue ratio	30.8	21.1	23.4	20.6	

Source*: MoFP DSA Report November 2016*

However, public debt has been on the rise as shown in figure 2, posing concerns about its continued sustainability moving into the future, especially as more borrowing is sought to finance strategic infrastructure projects in energy and transportation. All debt burden indicators have remained below their indicative thresholds as shown in table 5. It would be important to carry out and in-depth analysis to get a better understanding of the underlying features of public debt in Tanzania with a view to inform the borrowing strategy for the country.

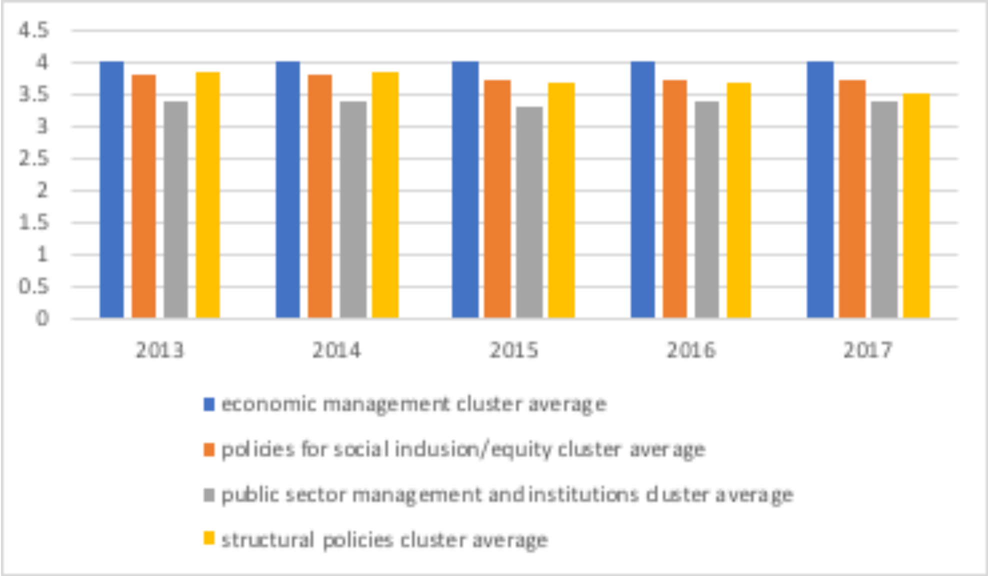
Tanzania's CPIA score, which stood at 3.8 for a period 2012 to 2014, has dropped to 3.7 in 2017 and has, therefore, seen the country being relegated to medium status; with huge implications on its borrowing space. For instance, threshold for the present value (PV) of Debt to GDP has dropped from 50 to the current 40; same for other indicators. Scores for the CPIA categories are as reported in table 6 and chart 2. Score for fiscal policy stands at 3.5 and 4.0 for debt policy. Given the various reform measure Tanzania has undertaken over the years, it would be of research interest to determine the driving factors to the current situation as far as the policy and institutional building space as how this affects public finance management related outcomes. This would touch on all the CPIA categories, with major focus on fiscal and debt policy frameworks.

Table 6: Country Policy and Institutional Assessment (CPIA) scores (2013 to 2018)

	2013	2014	2015	2016	2017
Economic management cluster average	4	4	4	4	4
Policies for social inclusion/equity cluster average	3.8	3.8	3.7	3.7	3.7
Public sector management and institutions cluster average	3.4	3.4	3.3	3.4	3.4
Structural policies cluster average	3.8	3.8	3.7	3.7	3.5

Source: *World Bank - Country Policy and Institutional Assessment 2017*

Figure 3: Country Policy and Institutional Assessment (CPIA) score



2.2.3 Inter-governmental fiscal relations

In many countries the lower levels of government undertake important fiscal functions, both on the expenditure side and with respect to revenues. In such systems various forms of fiscal arrangements between the national and subnational levels determine the way in which taxes are allocated and shared among the various levels of government, and how funds are transferred from one level to another. Thus, intergovernmental relations, both vertical (between levels of government) and horizontal (within levels) are important for the development and operation of an efficient and effective public sector. A key issue in intergovernmental fiscal relations is, therefore, the assignment of functions and finances to different levels of government. Inter-governmental fiscal transfers, defined as funding received from other levels of government (typically, the central government), are critical in the process.

In Tanzania, Local Government Authorities (LGAs) receive funds from several different sources. However, most of the funding comes in the form of transfers and grants from the central government through different channels. These transfers include recurrent sectoral block grants, sectoral basket funds and ministerial subventions, as well as local capital development grants. Recurrent block grants account for about two-thirds of all intergovernmental transfers. Recurrent block grants and local capital development grants are supposed to be formula-based and disbursed directly from the Treasury to LGAs, whereas most basket funds and subventions are more discretionary in nature and disbursed indirectly to LGAs by line ministries. Intergovernmental transfers fund roughly 90 percent of all local government spending, while local governments' own source revenues (including local rates and other locally collected revenue sources) account for approximately 10 percent of local financial resources. Local borrowing only accounts for approximately 0.1 percent of local spending.

Box 3 lists the main sources of revenue for local governments. The most important are classified as non-tax, including produce cess, market fees, services levies, licenses and permits, property tax, fines and penalties. Collecting such revenues create opportunities for rent-seeking; doing so efficiently requires robust monitoring and enforcement systems to ensure transparency and accountability, along with skilled staff who are costly to employ and maintain at the local level. Guidance from central and sectoral ministries is lacking; with fear of prevalence of political interference with local revenue collection.

Box 3: Revenue sources for local government authorities

Taxes on property *• Property rates* *Taxes on goods and services* *• Crop cess (maximum 3% of farm gate price)* *• Forest produce cess* *Taxes on specific services* *• Guest house levy* *Business and professional licenses* *• Commercial fishing license fee* *• Intoxicating liquor license fee* *• Private health facility license fee* *• Taxi license fee* *• Plying (transportation) permit fees* *• Other business licenses fees* *Motor vehicle and ferry licenses* *• Vehicle license fees* *• Fishing vessel license fees*	*Other taxes on permission to use goods* *• Forest produce license fees* *• Building materials extraction license fee* *• Hunting licenses fees* *• Muzzle loading guns license fees* *• Scaffolding/hoarding permit fees* *Turnover taxes* *• Service levy* *Entrepreneurial and property income* *• Dividends* *• Other domestic property income* *• Interest* *• Land rent* *Other local revenue sources* *• Administrative fees and charges* *• Fines, penalties and forfeitures*

Effective collection of revenue at the LGA level hinges on a constructive working relationship between central and local government authorities to create sound fiscal institutions and accountability to local tax payers. There are certainly costs to local taxation as its administration needs more tax evaluators and collectors, and greater capacity to monitor and penalize non-compliance (Likwelile and Assey, 2018). Given limited fiscal capacity at the subnational level it makes sense to build the requisite institutional capacity at that level and establish clear legal mechanisms; based on recognized resource endowment, need in terms of public services to be provided, and a fiscal capacity building component.

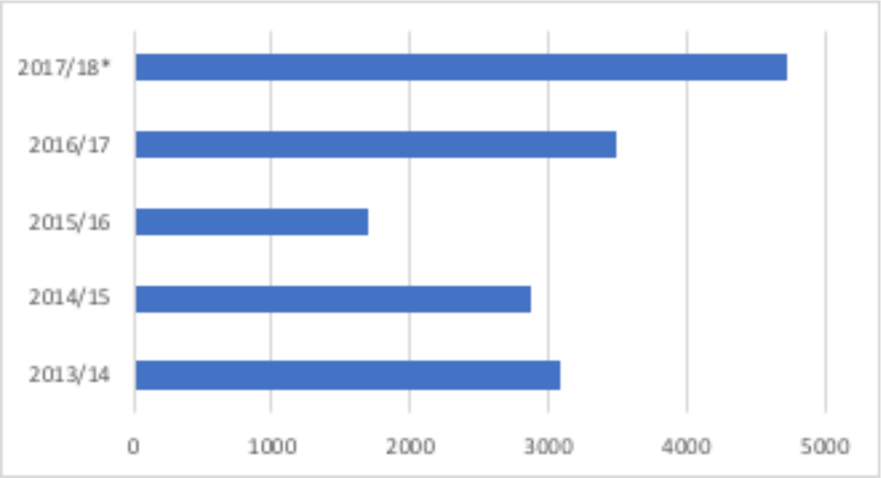
But one of the observable developments is non-stability and uncertainty of transfers as we witness funding vacillations between years (see table 7 and figure 3), which cause funding unpredictability. Administration of LGA revenue sources has of late been the mandate of the center; in an environment of delayed or non-transfer back of such funds to LGAs. Political economy reasons, or unaligned incentives and disincentives, may be among the critical forces determining such state of affairs; maintaining in the process a complex and inefficient system. All these may negatively impact service delivery and implementation of plans in general. Given the centrality of the transfers to service delivery at the subnational level, stability and magnitude of funds become critical elements of the planning and budget process at that level. Such developments call for and should be subjected to in-depth scrutiny. It is important, therefore, that a critical analysis of inter-governmental relations, transfers in particular, is carried out to inform policy.

Table 7: Central government transfers to LGAs (TZS billion)

Year	Amount
2013/14	3,081.11
2014/15	2,880.03
2015/16	1,703.70
2016/17	3,493.70
2017/18*	4,734.80

Source: *Ministry of Finance and Planning reports*

Figure 4: Central government transfers to LGAs



3 Institutional, political economy and PFM strategic initiatives and issues

3.1 Institutional and political economy issues

There is no question that institutions and institutionalization play an important role in economic development. It is observed that a country's political system and the cohesiveness of that system are important for managing resource allocation. Systems in which different groups in society are meaningfully represented and engaged with political processes are likely to be more stable. Less cohesion implies that more resources are being diverted away from common public goods, and towards patronage and clientelism, generating in the process a unique value for a group holding political power (Kyburz, 2019). North (1981) defines institutions as the rules of the game in a society or, more formally, as the humanly devised constraints that shape human interaction. Three important features of institutions become apparent: (1) that they are " humanly devised," which contrasts with other potential fundamental causes, like geographic factors, which are outside human control; (2) that they are "the rules of the game" setting "constraints" on human behavior; and (3) that their major effect will be through incentives. Thus, economic institutions are collective choices that are the outcome of a political process, and they depend on the nature of political institutions and the distribution of political power in society. How institutions are nurtured is also important. This is an important area for Tanzania's development as far as economic management is concerned, given developments as captured by the low overall CPIA score of 3.4 on strength of institutions and policies (table 8).

Table 8: CPIA Scores for Public Sector management and institutions

Indicator	Score	SSA IDA[4] Average
Public Sector Management and Institutions	3.4	3.0
Property Rights and Rule-Based Governance	3.5	2.8
Quality of Budgetary and Financial Management	3.0	3.1
Efficiency of Revenue Mobilization	4.0	3.4
Quality of Public Administration	3.5	2.8
Transparency, Accountability, and Corruption in the Public Sector	3.0	2.7

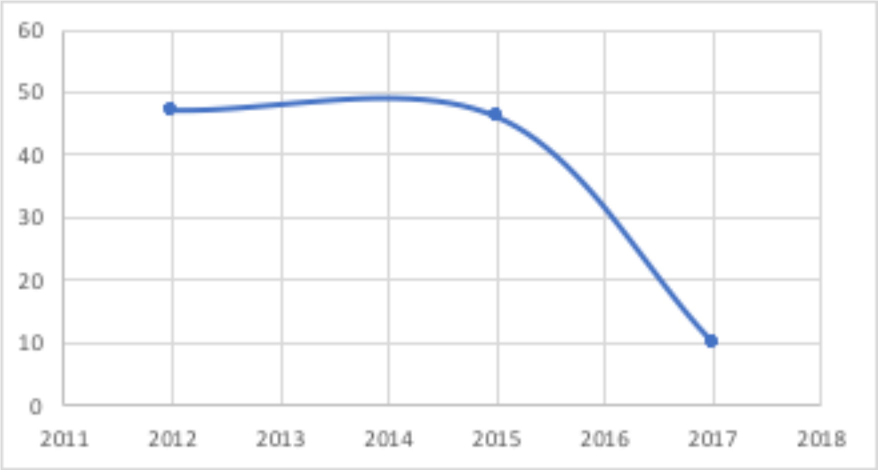
Source: *World Bank CPIA Report 2017*

[4] IDA: International Development Association, the arm of the World Bank Group that provides credits to the poorest countries. A total of 38 SSA IDA countries had CPIA scores in 2017.

One critical area as far as institution building is concerned is the place and role of subnational levels of government. Tanzania embarked on a Local Government Reform Program (LGRP) in 1996, accompanied by the decentralization by devolution (D by D) strategy, in which LGAs were supposed to be largely autonomous institutions, free to make policy and operational decisions consistent with the country's laws and policies; and have the power to possess both human and financial resources. Reforms were aimed at downsizing central government, reforming local governments and decentralizing more powers to them. It was expected that the D by D strategy would yield, among other outputs, the delivery of quality services to the people in a participative, effective and transparent way. The LGRP aimed to ensure discretionary powers for local councils to levy local taxes and fees and pass their own budgets, reflecting their own priorities alongside the obligation to meet nationally mandated standards in the delivery of the public services for which they are responsible. The bulk of the funding for these services – which include primary education, primary health, local roads, potable water, sanitation and agricultural extension – comes from central government, as do the salaries and emoluments of council civil servants. Transfers are allocated according to a formula which considers socioeconomic factors such as the size of population, area, poverty, and access to health facilities. There is ample evidence that the reforms have not been effective in increasing LGA's fiscal autonomy. What has gone wrong? How does this affect fiscal management at the local level? Are there any institutional dynamics that are at play? These are some of the issues that require deeper analysis to inform policy.

Institutions aside, the political economy aspects are also important. They relate to participation, transparency and accountability; and are, therefore, crucial in dealing with the challenges mentioned above. They revolve around the primary functions and policy instruments of any government in raising, allocating, and spending public resources. Political economy dynamics shape the transparency, participation, and accountability of government decision-making. There are those who would benefit from the lack of transparency and participation by shifting public funds to their political supporters or preferred projects, and those who would benefit from increased openness and inclusion in fiscal processes and practices. All in all, optimality requires that budget operations be carried out in a transparent and open manner to engender accountability, fiscal stability and financial sustainability. Current developments in Tanzania point to a different direction. One of the approaches used to assess developments in this area is through the Open Budget Survey. Tanzania's performance is not encouraging, as the trend in Open Budget scores show. As table 8 indicates, Tanzania recorded a low score of 3.0 on Transparency, Accountability, and Corruption in the Public Sector. The trend in Open Budget Index (OBI) scores is as shown in Figure 5. The OBI for Tanzania declined from 47 in 2012, to 46 in 2015, down to 10 in 2017; a score lower than the global average of 42.

Figure 5: Open Budget Index



This means that Tanzania provides the public with scant budget information. Public participation has a score of 15, meaning that Tanzania provides few opportunities for the public to engage in the budget process. Budget oversight has a score of 41, meaning that the legislature (Parliament) and supreme audit institution (CAG) in Tanzania provide limited oversight of the budget. The legislature is an important institution in overseeing the budget process given that public resources are involved. But what the Open Budget Survey is showing is the fact that the legislature provides limited oversight during the budget cycle; in that it provides adequate oversight during the planning stage of the budget cycle but weak oversight during the implementation stage of the budget cycle; which is the most crucial stage. There are recent developments as well regarding the position and mandate of the Supreme Audit Institution (the National Audit Office, NAO) vis a vis the Parliament; raising concerns about the independence of this oversight body and what it means with regard to the audit exercise. All these provide pointers to the importance of policy informing research in these areas, critical for transparency and accountability as far as the use of public resources is concerned.

3.2 Public financial management frameworks and processes pursued in Tanzania

3.2.1 Public expenditure review

Tanzania's Public Expenditure Review (PER) process provides a forum where working groups comprising of representatives from the Government, Development Partners, academia, the private sector and civil society organizations agree on an analytical agenda to improve Government spending, finance analytical studies, and guide the implementation of study recommendations. This approach has been consistent with the series of initiatives aiming at developing an open process of formulation of policy and budget strategy. The overall objective is to improve fiscal policy formulation and management. The PER process started in 1998, and since then public expenditure reviews have been conducted on an annual basis, closely aligned with Government's budget cycle and carried out under the direction of the PER Working Group, chaired by the Ministry of Finance and Planning (MoFP).

There are, however, several recent developments, or emerging concerns, which present a new context for approaching the PER process and new questions on how it can best support national policy objectives. One clear development is the absence of the PER consultative meetings. These developments suggest the need to critically look again at how the PER process can be appreciated, can best work, and how it relates to other processes in the policy and budget cycle, and in the interface between development partners and domestic stakeholders.

3.2.2 Medium Term Expenditure Framework

One of the major concerns facing countries is how to more effectively link policy, planning and budgeting; a key distinguishing feature the Medium-Term Expenditure Frameworks (MTEF)can deliver within a medium-term perspective. The MTEF became, therefore, an important framework to budget management. An MTEF typically consists of a top-down resource envelope consistent with macroeconomic stability and broad policy priorities and a bottom-up estimate of the current and medium-term cost of existing national programs and activities, and an iterative process of decision-making that reconciles these costs with available resources. The appeal of MTEF lies in their potential to link the often-competing short term imperatives of macroeconomic stabilization with the medium and longer term demands on the budget to contribute to improved policy making and planning, and to the efficiency and effectiveness of service delivery.

An effective MTEF is expected to discipline decision-making and enforcement as far as achievement of the objectives mentioned above is concerned. How effective is this the case at the present? Are there any other considerations to make it deliver? What needs to be avoided?

The Public Expenditure and Financial Accountability (PEFA) assessment carried out in 2017 notes the scope for re-thinking the approach to the MTEF and to Program Based Budgeting (PBB) so as to simplify formats and procedures and focus on a narrow set of objectives, where a re-designed MTEF/ PBB can have most effect as one area of opportunity going forward. It is suggested that strengthening of medium-term expenditure budgeting will also be a medium to long term process. The Government appears to be ready and has displayed a willingness to review the current, overly complex approach that has been adopted to the implementation of the MTEF. Activity-based costings generates a heavy burden on MDAs and complicates the process of adapting MTEF projections during the budget scrutiny process, with the result that this is not done effectively. A review of the approach to the MTEF would be very timely, with the basic objective of developing a framework for medium term budgeting that is simple and fit for purpose, starting from a careful reassessment of what are the core objectives of such a system in Tanzania. A precondition for an effective medium-term budget is a credible annual budget, which is not currently the case given the discussion presented above. How we fix that should be an area for interrogation.

3.2.3 Financial Accountability and Transparency

Financial management requires accountability and transparency to be credible. It is, therefore, important to strengthen the financial management capacities of Government agencies by improving government accounting and auditing systems and government financial controls for improved management of financial resources and greater accountability. Public financial accountability requires that governments manage finance prudently; that they integrate their financial and non-financial reporting, control, budgeting and performance; and that they report comprehensively on what they achieved with their expenditure of funds. The usual research questions include: i) how does effective and efficient application of financial control systems in government sectors enhance accountability on the economy; and ii) does improvement in accountability due to the application of management strategies in government sectors promote accountability in a country? All these are important for informing policy design.

The PEFA assessment of the PFM systems of the Tanzania Central Government carried out in 2017 identifies revenue administration as an area where reform progress is slowing and points out the following as areas of weakness: i) continued discrepancies between Budgets and Actual Expenditures have undermined credibility of the Budget, reinforcing bad budgeting practices and a lack of confidence in the system at MDA level, ii) an approach to cash management based on cash rationing rather than cash planning has undermined the system of commitment controls, resulting in expenditure arrears and unpredictable budgets, iii) this in turn has undermined the ability of the PFM system to promote the allocation of resources in line with strategic priorities and to facilitate efficient service delivery, and iv) consistent historical improvements in revenue administration are slowing, at a time when Tanzania is becoming increasingly reliant on domestic revenue mobilization given marked decline in development assistance and concessional borrowing.

A serious observation being made is that the lack of a reliable, credible annual budget is perhaps the biggest threat to the Tanzania PFM system. The continuing weaknesses in core aspects of PFM – budget credibility, cash management, commitment control – threaten to undermine the value of the improvements achieved in other areas. High levels of expenditure arrears and weaknesses in the monitoring of arrears have been persistent problems in Tanzania, reported in almost all PEFA assessments. The 2017 assessment points, however, to a further deterioration, with the stock of arrears now hovering at around 10% of total expenditure. Indeed, a longer-term threat to the performance of the PFM system is presented by the apparent slow-down in the process of strengthening revenue administration. It will be important to carry out research that will provide pointers as to what it takes to move towards enhancing revenue mobilization, planning and budgeting, transparency, accountability, efficiency and effectiveness in the use of resources and implementation of public priorities.

3.2.4 Extra Budgetary Funds

Discussion about effective public financial management will not be complete without addressing the issue of extra budgetary financing (EBFs). The Parliament in Tanzania has powers to enact a law providing for Contingencies Fund (CF) and authorizing the President or a minister appointed by the President to use money from the Fund to meet the costs of an urgent and unforeseen need for which no funds had been provided. A supplementary estimate should then be presented to Parliament for approval, and, if approved, a Supplementary Appropriations Bill shall be introduced to the Parliament to authorize the additional expenditure and thereby ensure that funds drawn from the CF shall be reimbursed.

Contingent Funds fall under the category of extra-budgetary funds (EBFs) which refer to sets of government transactions that are not included in the annual budget presentation. These may not be subject to the same level of scrutiny or accounting standards as the annual budget. A wide variety of extra-budgetary arrangements are used, including extra-budgetary funds such as insurance funds like social security funds and earmarked funds like road funds, set up under separate legislation that may or may not have a separate annual appropriation. Also included under EBFs are unappropriated expenditures, that is expenditures carried out without budget authority, usually in response to un-forecasted and compelling events. Other examples include commodity funds that use proceeds of commodity aid, earmarking specific kinds of revenue for specific purposes not included in the annual budget, or any other use of public funds that is not appropriated.

EBFs are mainly used for activities which are to a large extent self-financing, but which are not suitable for commercial provision, or whose provision the Government wishes to guarantee. The purpose of extrabudgetary accounts is to protect some activities from regular budgetary reviews of financial allocations, to ensure the resilience of funding over time. EBFs also arise because of political economy factors such as protecting politically sensitive programs from budget cuts or other short-term considerations in the context of the annual budget cycle and to give an appearance of a smaller budget deficit by financing certain programs outside of the budget. EBFs do, however, have potential problems as they may undermine the soundness of fiscal policy, fiscal discipline, and transparency. Such problems are not necessarily endemic to EBFs as a category of public institution and may frequently be attributed to poorly designed financial management and governance procedures, and a weak interface between these bodies and the budget process.

The fiscal policy considerations mainly relate to the soundness of fiscal analysis and fiscal policy formulation. The lack of full and timely information on the activities of EBFs, as a result of their insulation from the regular budget process, can significantly distort the assessment of the overall macroeconomic and fiscal position, including with respect to critical dimensions such as: the size of the general government; its contribution to aggregate demand, investment, and saving; and the tax burden. Important questions for research include why certain expenditures should escape the screening and weighing process of the budget. What is the appropriate framework for managing such expenditures or do such expenditures require a separate established institutional framework outside the regular budgetary framework? What is the magnitude of such expenditures and what impact do they have on the credibility of fiscal management and the budget process in particular?

3.2.5 National Five-Year Development Plan II

Implementation of the second Five Year Development Plan (FYDP II) draws lessons from past experience. Ineffective implementation plagued Tanzania's previous development plans. Implementation of the current plan gives a lot of emphasis to strategies for addressing core implementation challenges. The strategies are: mobilization of resources and their effective utilization, adequate organization and coordination for delivery, and strengthening monitoring and evaluation. It is estimated that a total of Tanzanian Shillings 107 trillion is required for the implementation of the Plan. This is to be mobilized from both government and private sector sources and development partners. The government is expected to contribute around Tanzanian Shillings 59 trillion or an average of Tanzanian Shillings 11.8 trillion annually over the Plan period. The rest will be solicited from the private sector and Development partners. In order to meet these targets, concerted reforms have been earmarked to facilitate the enhancement of domestic resource mobilization from current sources as well as through expanding tax base. Investment promotion has been emphasized with a view to improving project identification and preparation to woo private capital, both through direct participation and in partnerships.

The financing strategy of FYDP II has been developed taking into consideration changed patterns in the flows of key components of financing sources, namely: tax revenue; official development assistance; domestic and international borrowing; international public finance, domestic and international private finance, and partnership between public and private sectors. Accordingly, the Plan introduces new financing policies and strategies in order to: (i) scale up domestic revenue mobilization; (ii) increase private sector participation, singularly or in partnership with the public sector; (iii) ensure that priority investments secure smooth and full funding in order to ensure results; (iii) develop the domestic financial market and in particular long-term development financing syndication and mutual financing/funding; (iv) leverage public sector resources to entice private sector participation in financing priority development projects; and (v) build strong debt management and negotiation capacities in the Government with a view to reducing borrowing costs, including leveraging guarantees from multilateral financial institutions and developing the domestic debt market. All these require institutional and administrative capacities, which will have to be built after undertaking a thorough scrutiny of what exists and determination of gaps to be filled.

4 Looking into the future

As can be seen implementation of the FYDP II has implications on resources, on the government budget. The resource requirements, the financing strategy laid out, and the performance so far have lessons. What are these lessons? Are there innovative ways the government needs to be aware of to avoid fiscal uncertainties?

i. Macroeconomic and macro-fiscal policy

The government's future macro-fiscal strategy seeks to address the following revenue enhancement strategies. The Government intends to put in place strategies and measures to enhance revenue collection. All revenue will be collected by the Ministry of Finance and Planning. Therefore, MDAs, RSs, LGAs, and public institutions (PIs) shall collect and submit all their revenue to the Consolidated Fund and will be refunded as per approved budget. This is applicable also to all public institutions which are currently under the retention schemes. In order to achieve this objective, Accounting Officers are instructed to create conducive environment that will enhance revenue collection by:

a. *Identifying all potential sources of revenue as part of comprehensive revenue collection strategies;*
b. *Ensuring the use of mass valuation method and collection of property tax based on value of properties in urban councils (Cities, Municipalities and Town Councils), district headquarters and townships authorities. In addition, all unvalued property must pay a flat-rate property tax under interim arrangement;*
c. *Land use survey and mapping should be undertaken for issuance of title deeds;*
d. *Formalizing informal businesses and broadening tax base;*
e. *Reviewing fees, levies and charges to attract compliance with public services;*
f. *Ensuring the use of electronic system in collection of taxes, fees, levies, and charges in order to curb revenue leakages;*
g. *Awarding contracts to suppliers, contractors and service providers who use Electronic Fiscal Devices (EFDs); and*
h. *Avoiding entering contracts with tax exemption clauses without prior approval by the Minister of Finance.*

How credible is this strategy given the experience so far? Can any repackaging work for Tanzania? These and many others are candidate issues for in-depth investigation.

ii. Budget credibility

Budget credibility describes the ability of governments to accurately and consistently meet their expenditure and revenue targets. The PEFA Framework defines budget credibility (or "Credibility of the Budget") as "The budget is realistic and is implemented as intended". A government can be accurate but not consistent, consistent but not accurate, neither, or both. These concepts also apply at sub-aggregate levels, where there may be substantially more variation. It should be noted that deviations in expenditure and revenue may have important implications for macroeconomic stability, public service delivery, and social welfare. If expenditure is under-executed, beneficiaries may not receive crucial services. Similarly, if expenditure is over-executed without a corresponding match in revenues, there may be an increase in the budget deficit, debt service financing, public debt levels, and other stresses to macroeconomic stability. Thus, the ability to implement a budget is a crucial component of a sound public financial management (PFM) system. However, budget credibility is an area that is often neglected and under-researched. Despite substantial investments to improve PFM systems and strengthen capacities, many countries still struggle to implement their budgets as originally planned.

Thus, one of the important areas for investigation would be the magnitude of deviation, of both expenditure and revenue, from the approved and implications this has on delivery; i.e., whether under, as planned or over. The following indicators are usually used to assess credibility of the budget: i) Aggregate expenditure outturn compared to original approved budget, ii) Composition of expenditure outturn compared to original approved budget, iii) Aggregate revenue outturn compared to original approved budget, and iv) Stock and monitoring of expenditure payment arrears. According to PEFA criteria:

- *underspent is defined as budget execution less than 97.5 percent,*
- *as planned is defined as budget execution between 97.5 percent and 102.5 percent, and*
- *overspent is defined as budget execution greater than 102.5 percent.*

Tanzania, with a score of 94.4 percent, falls in the category of underspent countries.

iii. Budget execution

The key issues on budget execution are always whether deficit targets are likely to be met, and whether any budget adjustments (both on the revenue and expenditure sides) agreed at the preparation stage (or in-year) are being implemented as planned. On the expenditure side of the budget, the key issues are whether the outturn is likely to be within the budget figure; whether any changes in expenditure priorities (as against past patterns) are being implemented in specific areas as planned; and whether any problems are being encountered in budget execution, such as the buildup of payment arrears. Budget execution is, therefore, an important stage of the budget process as it is at this stage that actual revenue collections and service delivery takes place. Execution of the budget is, in essence, about the collection and accounting for revenue, provision of services through the recurrent budget and implementation of development projects. The key documents used during implementation of the budget are books for Revenue and Expenditure estimates, action and cash flow plans and budget memorandum. Main activities are: -

- *Release of funds by the MoFP,*
- *Collection and accounting for revenue collections by TRA and other MDAs. Accounting officers are appointed as receivers of revenue and accountable officers for expenditure in accordance with the Public Finance Act, 2001,*
- *Delivery of services and project implementation by institutions. This involves both government institutions and Development Partners. DPs are required in some cases to release funds and award of contracts,*
- *Maintenance of proper Accounts for control and Accountability,*
- *Reporting on budget performance (both financial and physical) and evaluation, and*
- *Project inspection and expenditure monitoring.*

There is, therefore, need to fully understand weaknesses in the country's budget execution process. Is it transparent? Are there clear lines of accountability? Is information on execution of the budget available on a timely, reliable, and accurate basis? Is it thus consistent with the principles of good governance? Based on this understanding, where are problems likely to arise, and how might they be avoided or overcome?

iv. Public debt management

While Tanzanian public debt is till manageable, a rise in the ratios of public debt to GDP, and particularly domestic debt may potentially crowd-out private investments and jeopardize future growth. Pertinent research questions could include what are the trends in public debt management and how are they likely to affect domestic interest rates and investments? What effects might the debt mix, and levels affect financial deepening process that is needed for sustained private sector investment and economic growth? What financing options can the Tanzanian financial markets provide that may enhance effectiveness of public spending? What innovative financing instruments exists that could be efficient and with reduced risks?

v. Financial accountability and transparency

In the past decision-making around government revenues and expenditures has been the purview of the cabinet, finance and planning ministers, and central bank staff, along with a few select officials in executive agencies. Other ministries, government branches (like the Parliament), the business community, civil society organizations, and the broader citizenry have had little or no access to information on public financial management. The quantity and quality of engagement and the inclusion of these nonexecutive actors in fiscal decision-making and oversight processes had, in essence, been limited. In recent years interest and action with respect to transparency, participation, and accountability in fiscal decision-making have surged around the world; Tanzania being no exception.

Indeed, over the past two decades, several broad trends have brought fiscal transparency, participation, and accountability into sharp focus. There has been, among others, introduction of modern public finance management systems and good practices in countries around the world; greater decentralization and devolution of powers to subnational levels of government, including the power to raise, allocate, and spend public resources; growth in the number and operational capacity of independent civil society organizations (CSOs) seeking to be informed about and actively participate in government decision-making; and the dramatic growth, spread, and use of information and communication technologies around the world. Indeed, Tanzania has substantially invested in Public Finance Management (PFM) to address issues of transparency and accountability in public finance management systems and conducts the Public Expenditure Reviews (PER) to evaluate effectiveness of public finances, to mention a few measures. It would be important to examine this to determine the extent of its usefulness as far as financial management is concerned.

vi. Inter-governmental fiscal relations

The Government of Tanzania has committed to continue to provide resources to LGAs in the form of grants to meet their obligations of ensuring quality service delivery. The grants are provided in the form of Block Grants, Local Government Development Grant (discretional) and other forms of development funds. The ceilings will be determined by the annual performance of LGAs and resource allocation formula. In preparing their plans and budgets, LGAs are accordingly instructed to consider the following issues:

a. *The capitation grant for primary schools will continue to be Shillings 10,000 per enrolled pupil per annum, including pre-primary pupils and those in special day schools. Forty percent (40%) of the Capitation grant will continue to be used to purchase books in bulk centrally and the remaining 60 percent will budget for by the LGAs own source;*
b. *The capitation grant for secondary schools will continue to be Shillings 25,000 per enrolled day and boarding student per annum. Fifty percent (50%) will be used to purchase books in bulk centrally, while LGAs have to budget for the remaining fifty percent (50%) for other operational expenses;*
c. *The criteria for allocating the budget for school meals will continue to be at an average of Shillings 540,000 per annum (i.e. Shillings 2,000 x 270 school days) per student enrolled in registered boarding primary and secondary schools; and iv. Costs related to primary school examinations (STD IV and VII) as well as secondary school examinations (Form II, IV, and VI) should be based on realistic budget estimates.*

Given the centrality of transfers to service delivery at the LGAs, what are the likely effects of this package? How realistic have they been in view of the expectations at the local level?

5 Conclusion: Issues and Research questions

The challenges and shortcomings highlighted above should inform the research focus. Key issues and research questions include the following:

Fiscal policy and planning

What should be key objectives of Tanzania's fiscal policy over the medium term? What are the main drivers of tax policy in Tanzania?

How useful has a medium-term fiscal framework been for fiscal planning? How relevant are the Medium-Term Expenditure Framework (MTEF) to inform the budget? To what extent does the budget and MTEF reflect the FYDP II priorities?

Budget credibility and execution

How credible is the budget process? To what extent is the budget executed and what political and institutional constraints help to explain the rates of budget execution? What options or mechanism can be put in place to address the challenge of uncertainty and insufficiency of fiscal transfers, besides revenue mobilization?

Expenditure management

What factors determine the choices between capital/development expenditure and recurrent expenditure, and what constitutes an optional mix? Are the priority interventions as outlined in the FYDP II in line with the budgets and expenditure pattern? Does extra budget (off-budget) financing add to fiscal risks and budget execution gaps?

Public debt management

While Tanzanian public debt is till manageable, a rise in the ratios of public debt to GDP, and particularly domestic debt may potentially crowd-out private investments and jeopardize future growth. What are the trends in public debt management and how are they likely to affect domestic interest rates and investments? What effects might the debt mix, and levels affect financial deepening process that is needed for sustained private sector investment and economic growth? What financing options can the Tanzanian financial markets provide that may enhance effectiveness of public spending? What innovative financing instruments exists that could be efficient and with reduced risks?

Financial accountability and transparency

Tanzania has substantially invested in Public Finance Management (PFM) reforms aimed at ensuring transparency and accountability in public finance management and conducts the Public Expenditure Reviews (PER) to evaluate effectiveness of public finances. To what extent has this worked? Who benefits and how does this form the basis for openness? Any lessons for future?

Inter-governmental fiscal relations

How are the inter-governmental fiscal relations structured and how do they enhance or constrain delivery of services at local government level? How well does the transfer flows work from central level to local government level and onward to recipient units for service delivery?

There is need to address the complex and confusing administrative relationship between central and local government, along with limited fiscal capacity at the local level and the frequency of centrally imposed changes in revenue regimes, which make it harder to develop sustainable fiscal capacity at the subnational level.

There is need also to examine the complex administrative landscape and in-service innovations that underpin local government functions and assess their impact on downward accountability, one of the central tenets of the decentralization agenda.

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