

Report No. 64585-TZ

United Republic of Tanzania Public Expenditure Review 2010

September 2011

Prepared by the Members of Macro Group of the Tanzania PER Working Group
Ministry of Finance and Development Partners PER Macro Group



Document of the World Bank

ABBREVIATIONS AND ACRONYMS

ACGEN	Accountant General	MoFEA	Ministry of Finance and Economic Affairs
BoT	Bank of Tanzania	MoHSW	Ministry of Health and Social Welfare
CAG	Controller and Auditor General	MoID	Ministry of Infrastructure Development
CEO	Chief Executive Officer	MoWI	Ministry of Water and Irrigation
CG	Central Government	MTEF	Medium Term Expenditure Framework
D by D	Decentralization by Devolution	MTPP	Medium Term Pay Policy
DfID	Department for International Development	NAO	National Audit Office
DSA	Debt Sustainability Analysis	NBAA	National Board of Accountants and Auditors
ERP	Enterprise Resource Planning	NGOs	Non-Governmental Organizations
FDI	foreign direct investment	PAA	Public Audit Act
FY	Financial Year	PABs	Public Authorities and other Bodies
GDP	Gross Domestic Product	PAD	Policy Analysis Department
GFS	Government Finance Statistics	PBG	Planning and Budget Guidelines
HIPC	Heavily Indebted Poor Countries	PE	Personnel Emolument
IFAC	International Federation of Accountants	PEFAR	Public Expenditure and Financial Accountability Review
IFMS	Integrated Financial Management System	PER	Public Expenditure Review
IFRS	International Financial Reporting Standards	PFM	Public Financial Management
IMF	International Monetary Fund	PGB	Plan and Budget Guidelines
INTOSAI	International Organization of Supreme Audit Institutions	PMUs	Procurement Management Units Analysis Department
ISA	International Standards on Auditing	Policy	Policy
IT	Information Technology	PPRA	Public Procurement Regulatory Authority
JAST	Joint Assistance Strategy for Tanzania	RAS	Regional and Administrative Secretariats
JICA	Japan International Cooperation Agency	SMEs	Small and Medium Enterprises
KfW	Kreditanstalt fuer Wiederaufbau	SMW	Solid Waste Management
LAAM	Local Authority Accounting Manual	STCL	Soft-Tech Consulting Limited
LAFM	Local Authority Financial Memorandum	SBA	Strategic Budget Allocation
LGDG	Local Government Capital Development Grant	TANESCO	Tanzania Electricity Supply Company Ltd.
LGAs	Local Government Authorities	TCAA	Tanzania Civil Aviation Authority
LGFA	Local Government Finance Act	TCRA	Tanzania Communication Regulatory Authority
MCC	Millennium Challenge Cooperation	TIB	Tanzanian Investment Bank
MDAs	Ministries, Departments and Agencies	TPA	Tanzania Ports Authority
MDRI	Multilateral Debt Relief Initiative	UN	United Nations
MEM	Ministry of Energy and Minerals	VAT	Value Added Tax
MKUKUTA	Mkakati wa Kukuza Uchumi na Kupunguza Umaskini Tanzania	VfM	Value for Money
MMAM	Mpango Maalumu wa Afya ya Mama na Mtoto	WB	World Bank

This is the work of the Development Partners Macro Group, which includes WB, IMF, EC, DfID, JICA, AfDB, CIDA, KfW, Finland, Norway, Sweden, Ireland, and Denmark.

Vice President:	Obiageli Ezekwesili
Ac. Country Director:	Mercy Tembon
Sector Director:	Marcelo Giugale
Sector Manager:	J. Humberto Lopez
Task Team Leader:	Emmanuel Mungunasi

Table of Contents

ACKNOWLEDGMENTS	I
EXECUTIVE SUMMARY	IV
CHAPTER 1: BUDGET ANALYSIS	1
Introduction.....	1
Medium Term Macroeconomic and Budget Framework.....	1
Budget and Actual Spending Consistency – 2009/10.....	26
CHAPTER 2: VALUE FOR MONEY IN EDUCATION.....	33
Introduction.....	33
Education spending and results: national trends.....	33
Beyond the averages: unequal funding, unequal outputs, and local inefficiencies	39
What is the Scale of Inefficiency?	47
Summary findings.....	50
CHAPTER 3: PUBLIC INVESTMENT MANAGEMENT DIAGNOSTIC	52
Introduction.....	52
Macroeconomic context of tanzania’s public investment program	53
Tanzania’s Development budget.....	55
Issues in budgeting for Development in Tanzania.....	57
Conclusions and Key Messages.....	70
ANNEXES	75

List of Annexes

Annex 1: Budget Process and PIM Within The Ministry of Energy and Minerals	75
Annex 2: Appraisal of Public Investment: Chile	81
Annex 3: Statistical Appendix Tables.....	85

List of Boxes

Box 1: Major approaches of institutional reforms to introduce Public Investment Management (PIM).....	58
Box 2: Roles of Ministry of Finance and a country’s institution responsible for national planning	60
Box 3: Proposal for a Project Profile and Assessment Form.....	62
Box 4: Cost-benefit analysis: a primer.....	68
Box 5: Importance of quality at entry and economic analysis for the success of a project	69

List of Figures

Figure 1. Overall Fiscal Trends (as % of GDP).....	iii
Figure 2. Fiscal Deficit Trends (as % of GDP).....	iii
Figure 3. Overall Budget Allocations in Major Sectors	iii
Figure 4. Overall Budget Allocations by Main Economic Categories (as % of total budget).....	iii
Figure 5. LGAs in Total & Sector Spending (shares).....	iii
Figure 6. Health Per-capita rec. Spending per District	iii
Figure 7. Steady Structure of Production.....	2
Figure 8: Sectoral Contribution to Growth, Trend and 2009	2
Figure 9: Inflation and Exchange Rate Dev.....	3
Figure 10: Real Bilateral Exchange Rate Mov.	3
Figure 11: Current Account Deficit Reduces in Downturn	4
Figure 12: Fiscal Deficit	5
Figure 13: Ambition in the 2010/11 Budget – increases as % GDP.....	6
Figure 14: External Debt and GDP.....	7
Figure 15: Recurrent Budget and Domestic Revenue.....	8
Figure 16: Decomposition of the Budget.....	20
Figure 17: Budget Decomposition by Economic Nature of Spending	21
Figure 18: Change in Budget Shares by Economic Nature of Spending.....	22
Figure 19: Budget and Actual Spending in LGAs by Sectors	24
Figure 20: Budget Allocations for Infrastructure Maintenance.....	25
Figure 21: Trends in Release and Spending of Development Funds for MDAs	29
Figure 22: Public Spending by Sub-sector.....	34
Figure 23: Primary School Leavers Pass Rates	35
Figure 24: Public Expenditure per PSLE Passer (“cost per passer”).....	35
Figure 25: Results of Uwezo’s Standard-II (8-9 year old level) Mathematics Test in Pupils from Standard III to Standard VII (9-14 year olds).....	36
Figure 26: Children in Secondary School.....	37
Figure 27: % CSEE Candidates at Grade	37
Figure 28: Public Expenditure per University Student per year, TShs 2010 Prices	38
Figure 29: Primary Education Budget per Capita across Districts – Persistent Inequality	39
Figure 30: Children per Primary School teacher – District Average Ranges from 30 to 80	39
Figure 31: PSLE Passes per 13 Year Old – District Average Ranges from 0.2 to 1.1 in 2008	40
Figure 32: Higher Poverty Rates in Districts with Less Spending	40
Figure 33: Poverty and Passers per 13 Year Olds, 2008.....	40
Figure 34: Child Health and Passers per 13 Year Olds, 2008	40

Figure 35: Adult Literacy and Passers per 13 Year Old, 2008	41
Figure 36: More Teachers Means More Exam Passes (controlling for social conditions).....	42
Figure 37: Distribution of average unit cost:	43
Figure 38: “Frontier” Group Circled in Green – Highly Inefficient Districts Circled in Red	46
Figure 39: Estimated PSLE Passers for an Extra TShs 50 billion Spent in Each of Five Groups of Districts, Underserved up to Best Served	48
Figure 40: Foreign Aid Grants (% of GDP).....	55
Figure 41: Foreign Borrowing (% of GDP).....	55
Figure 42: Composition of the Budget.....	55
Figure 43: Composition of the Budget.....	55
Figure 44: Different Types of Public Expenditures	56
Figure 45: Execution of Development Budget	56
Figure 46: Sectoral Execution of Development Budget	57
Figure 47: Composition of Development Budget by Priority Sectors (% of GDP).....	57
Figure 48: Proposed Schematic Public Investment Project cycle.....	65

List of Tables

Table 1: Sources of Fiscal space Pre- and Post- 2008/09 and in the 2010/11 Budget.....	5
Table 2: Domestic Revenue Performance.....	9
Table 3: Aid Financing	10
Table 4: Budget allocation between MKUKUTA and non-MKUKUTA.....	11
Table 5: Budget allocation between MKUKUTA clusters (shares)	11
Table 6: Budget and actual spending in selected non-MKUKUTA votes (shares)	12
Table 7: Budget allocation between broad functions (shares)	14
Table 8: Budget and Actual Spending Between Major Sectors.....	16
Table 9: Decomposition of the Budget	19
Table 10: Budget Decomposition by Consumption and Capital Spending	20
Table 11: Decomposition of Budget and Actual Spending in LGAs (shares).....	23
Table 12: Recurrent Budget Deviation	26
Table 13: Recurrent budget over- and under- spenders	27
Table 14: MDAs Recurrent Budget Deviation Index	28
Table 15: MDAs Development Execution Rates.....	31
Table 16: Trend in Tertiary Gross Enrollment Rates (%GER) in East African Countries.....	38
Table 17: Some of the Most Efficient Primary School Districts in Tanzania	44
Table 18: Some of the least Efficient Primary School Districts in Tanzania	45
Table 19: If these 14 Districts Achieved Normal Efficiency, they would save TShs 38 billion ..	47
Table 20: Underserved Districts with Good Efficiency.....	49
Table 21: Additional Availability of Resources for Development Expenditure (changes in % of GDP).....	54

ACKNOWLEDGMENTS

Context

Tanzania Public Expenditure Review (PER) 2010 is the output of the Macro Subgroup of the PER Working Group. The subgroup, co-chaired by the Ministry of Finance (MoF) and the World Bank, coordinated and guided the PER 2010. The subgroup's membership represents the government, the World Bank (WB), the International Monetary Fund (IMF), United Nations (UN) agencies, other bilateral and multilateral donors, and Non-Governmental Organizations (NGOs). The subgroup prepares, approves and supervises implementation of the annual and medium-term PER work program. The two main objectives of the PER work are to provide support in improving planning, budgeting, and financial management and to carry out external evaluation of the public expenditure and financial management systems and practices in Tanzania.

The PER 2010 comprises three parts: Budget Analysis (core analysis), Value for Money in Education, and Public Investment Management (PIM) Diagnostic in Tanzania. Findings from analysis of budget and expenditure data provided by the Ministry of Finance and other government authorities constitute the Budget Analysis and Value for Money in Education. The PIM Diagnostic is based on the findings of the PIM programming mission carried out in February 2011 in Tanzania.

The findings of the PER 2010 were presented and discussed in a variety of forums. The findings of Budget Analysis and Value for Money in Education were presented and discussed extensively during the Annual National Policy Dialogue (ANPD) and General Budget Support Annual Review 2010. In addition, the findings of the PER 2010 were presented to and discussed by the Parliamentary Oversight Committee, Planning and Budget Guidelines Committee, as well as to the PER Working Group. The feedback received from all these forums is reflected in this report.

Team composition

Emmanuel Mungunasi is the task manager and principal author of this report. Budget Analysis (Core Analysis) was authored by Emmanuel Mungunasi and Stevan Lee while Value for Money in Education was authored by Stevan Lee. Jos Verbeek authored PIM Diagnostic. Substantive inputs and background papers were prepared by Paolo Zacchia (RBA synoptic note); Emmanuel Mungunasi and Stevan Lee (aggregate analysis); Denis Biseko and Emmanuel Mungunasi (wage bill analysis); Nina Nasman and Goodluck Mosha (local government); Oyinola Shyllon and Stevan Lee (education); Goodluck Mosha, Prosper Charle, and Stevan Lee (health); Caroline van den Berg (water); Alexander Shlyk and Kuroda Takanabo (road/transport); Sergiy Zorya and Nathalie Francken (agriculture); and Leonidas Luteganya (data).

Paolo Zacchia, Lead Economist, AFTP2, provided general guidance in writing this report. Kathie Krumm, Sector Manager, AFTP2, provided technical and quality assurance supervision. Mwanaisa Kassanga (AFCE1), Agnes Mganga, and Arlette Sourou (AFTP2) were responsible for the actual production of the report.

The team wants to thank the chairs of Macro Subgroup of the PER Working Group for coordinating the whole exercise of producing this report. All others who extended support and assistance in preparing this report are acknowledged.

A Budget Snapshot

Figure 1: Overall Fiscal Trends (as % of GDP)

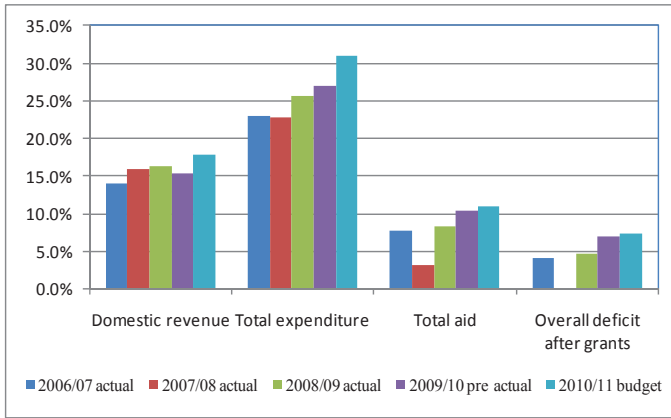


Figure 2: Fiscal Deficit Trends (as % of GDP)

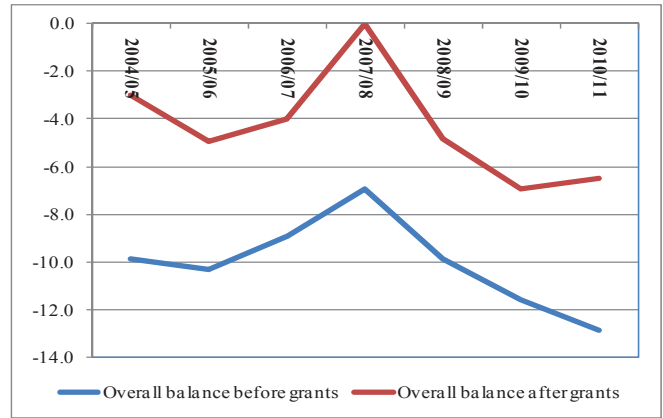


Figure 3: Overall Budget Allocations in Major Sectors (as % of GDP)

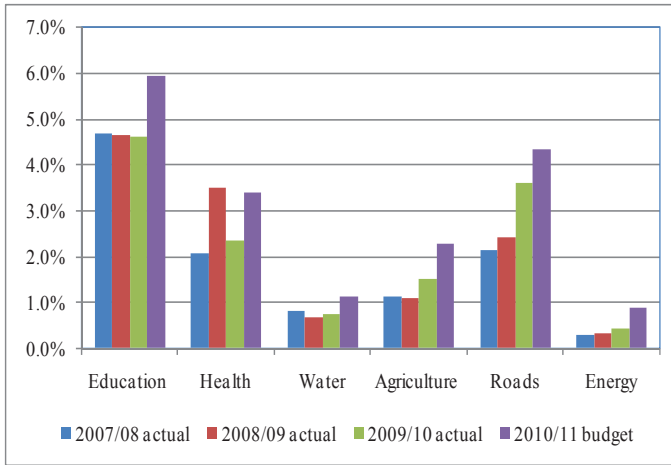


Figure 4: Overall Budget Allocations by Main Economic Categories (as % of total budget)

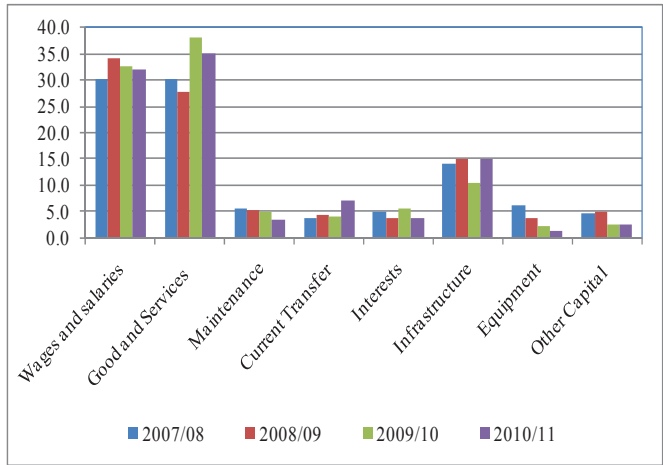


Figure 5: LGAs in Total & Sector Spending (shares)

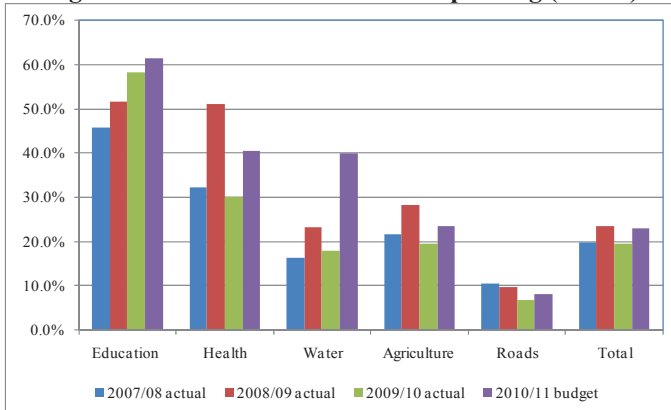
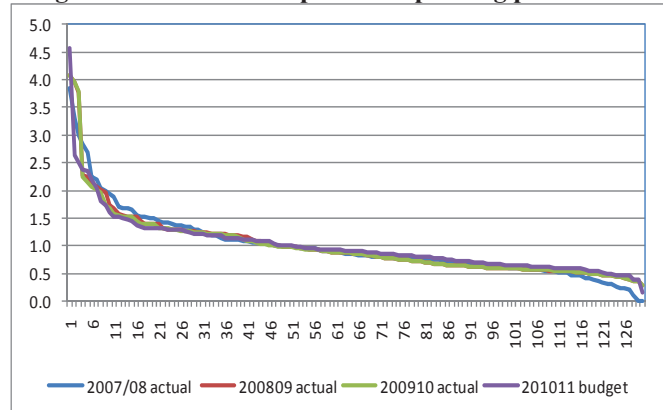


Figure 6: Health Per-capita rec. Spending per District



EXECUTIVE SUMMARY

(Key Findings and Recommendations)

1. Budget is a fiscal tool in the hands of the government that is effectively used to accomplish various socio-economic objectives. Budget should play more functional roles than just a statement of revenue and expenditure. Public revenue and expenditure patterns and nature must be designed in such a way that they support the intended socio-economic objectives of the government. The main objectives most governments try to achieve using the budget are (i) macro and fiscal sustainability; (ii) public service delivery, both social and economic services; and (iii) management and provision of public investments.

2. In Tanzania, for the budget to remain a relevant tool for development policy, it has to ensure: (i) the country's macro and fiscal sustainability; (ii) efficient resource allocation to provide quality socio-economic services, such as education, health, and social protection; and (iii) provision and management of public investment, such roads, railways, energy, and irrigation, to spur economic growth in the country. These objectives are also stated in various government policy and strategic documents, including the MKUKUTA. The budget is assessed against these objectives to determine whether it has remained the government's main fiscal tool for accomplishing these objectives.

Macro and Fiscal Sustainability

3. **Tanzania was successful at creating additional fiscal space during most of 2000s.** Increased revenue collection resulted in part from strong economic growth, together with increased aid and concessional loans; these combined to provide additional fiscal space, which helped to expand public spending. However, in the last three years of the 2000s, revenue and aid to GDP ratios declined/stagnated, and as a consequence, additional fiscal space was created from increased concessional borrowing. From 2009/10 onward, additional fiscal space is being created mostly from non-concessional borrowing from external and domestic sources. Despite the non-concessional borrowing, Tanzania remains at low risk of debt distress.

4. **Reducing current spending is necessary as Tanzania exits from fiscal stimulus.** A large share of the additional fiscal space created over recent past was directed to current spending, partly driven by fiscal stimulus due to global economic crisis. Most measures implemented through the fiscal stimulus required increased current spending. Evidence from other parts of the world shows that discretionary fiscal expansions are difficult to reverse. This is the first major episode for Tanzania (and other African and low-income countries) that had the fiscal space to attempt countercyclical policy. It will be important to monitor whether these were indeed reversed and credibility maintained (and whether certain categories of discretionary current spending prove easier to reverse) or whether Tanzania will have to eschew future active fiscal responses (or categories of discretionary spending) out of the realization that exit cannot be safely assumed.

5. **There was significant overestimation of domestic revenue for the 2010/11 budget.** Domestic revenue was overestimated by at least TShs500 billion, or 1.8% of GDP, which resulted in a significant financing gap. To close the gap, the government is cutting recurrent expenditure back from the level planned in the budget. This might be damaging but should be manageable. Nonetheless, a careful approach in cutting expenditure is necessary to protect key expenditure program areas. Moreover, fiscal risks associated with overestimation of other revenue streams, including access to non-concessional borrowing from foreign banks and aid for projects, might also result in further cuts or build up of arrears, especially in development spending program. Strict commitment control would be imperative to protect build up of arrears where expenditure cuts prove to be difficult or, as in the case of roads, where expenditure discipline has lapsed. Increased non-concessional borrowing earmarked for infrastructure spending requires a strengthened institutional framework to ensure quality and risk management of the public infrastructure investment. It also requires a sound debt management strategy.

Strategic Allocation

6. **A large share of the budget is allocated to the MKUKUTA strategic interventions.** More than 70 percent of the 2010/11 budget is allocated to the MKUKUTA strategic interventions; economic growth and reduction of poverty (cluster 1) receive the greatest attention. Planned increases in infrastructure expenditure drive increased allocations to cluster 1. Unless a cautious approach to expenditure cuts and access to non-concessional external borrowing are ensured, allocation to the MKUKUTA and cluster 1 could be lower than anticipated. Apart from accessing the funding from non-concessional external sources, another priority is improved execution of the development budget, especially large infrastructure investments. This will be important to ensure meeting the MKUKUTA strategic objective of economic growth and poverty reduction.

7. **Allocation to priority sectors is high, consistent with high share of MKUKUTA allocations in the budget.** Key sectors, such as education, health, water, roads, agriculture, and energy, are projected to spend more than 60 percent of the overall budget (excluding interest payment) in 2010/11. The planned spending in these sectors represents an increase compared with the budget and actual spending in 2009/10. The high share of allocation to priority sectors is driven by increased budgetary resources to the education, agriculture, and roads sectors, consistent with the government intention of achieving the MKUKUTA strategic objectives. While increased budgetary resources are welcome, prioritization within these sectors needs to receive maximum attention to ensure the efficiency and effectiveness of the spending programs. Again, key sectors share in the budget might be lower than 60 percent unless a cautious approach to expenditure cuts and access to non-concessional external borrowing is ensured.

8. **However, the share of capital spending in the budget is low and needs to be increased by reducing current spending.** Despite the increased allocations to both the MKUKUTA and priority sectors in the budget 2010/11, allocations to capital spending programs, such as infrastructure investment, remain low at 18 percent and equivalent to 5.5 percent of GDP. With continued low execution of the development budget as well as inaccessibility of planned non-concessional external borrowing, the share of capital spending could decline further, which would translate to low infrastructure investment. To realize the MKUKUTA

objectives of growth and reduction of poverty, Tanzania will need to step up capital spending, such as infrastructure investment in transport, water, and energy. Creating required additional space, the government will have to reduce current spending in favor of capital spending. Reduction of spending on goods and services in favor of capital spending is necessary.

9. **In addition, low budget allocation for infrastructure maintenance needs to be reversed.** The overall share of the budget allocated for infrastructure maintenance declined in 2010/11. This share could decline further unless allocation for infrastructure maintenance is not protected in planned expenditure cuts. Inadequate allocation for infrastructure maintenance, especially in the energy and roads sectors, has resulted in unreliability and low accessibility to electricity and rural roads. This problem hinders Tanzania's potential for higher growth and reduction of poverty. Some backlogs and additional new infrastructure investment require increased allocation for maintenance to avoid a huge rehabilitation or reconstruction expense in the future. Increased allocation for maintenance in key sectors will also ensure reliability of and access to key services, such as rural roads and electricity, which are critical for the growth of the economy. Therefore, the government will need to find some new ways to increase resources for infrastructure maintenance.

10. **As more resources are being transferred to LGAs, planning and implementation capacity needs improvement.** Consistent with increased budgetary resources to priority sectors such as education and agriculture, planned expenditures in the LGAs increase. LGAs are responsible for delivering primary and secondary education, primary health, agriculture extension services, and rural roads maintenance. Planned expenditure at the LGAs is 23 percent of the overall budget in 2010/11, which is an increase of 2.5 percent compared with actual spending in 2009/10. As in priority sectors, LGAs spending program prioritization need to be improved to ensure that resources are applied where they are most effective and efficient. In addition, planning and implementation capacity needs to be improved.

11. **The cost of providing higher education is high and continues to rise, prompting sustainability concerns.** Higher education has also expanded very rapidly. Unit costs have been controlled and increasingly funding is raised through the Higher Education Students Loan Board (HESLB). Affordability of expanded higher education rests on the government's developing a strategy for recovering loans (generating reflows) from graduates. This is an issue of equity as well as affordability. Currently, tertiary education is on course to overtake primary education as the largest share of the education budget, but only 4 percent of the population will go to university, and this cohort derives largely from the richest stratum of society.

12. **Development budget execution improved significantly in 2009/10, but delays in the release of funds remained.** Increased release of funds led to improvement in development budget execution rate. The release rate rose to approximately 80 percent of funds budgeted for development spending, but more than 50 percent of the funds were released in the last quarter of the FY. Delays in the release of funds are due to delays in meeting disbursement conditions, including procurement. Hence, improvement in planning, preparation, procurement, and implementation of investment projects is critical in both key MDAs and LGAs.

Quality of Public Service Delivery in Education

13. **Focus should now be moved to improving the quality of education.** There is a major problem with quality in primary education. Given that Tanzania now spends significant sums on primary education, poor quality is a value for money issue across the system. The average level of achievement in primary school is too low and means the full benefits of universal education are not being realized. Furthermore, standards of achievement have been deteriorating, with a 20 percent drop in the pass rate for the primary school leavers' exam since 2007. Deteriorating quality can wipe out any efficiency gains made from better management or a more equal resource allocation. Moreover, at a national level, poor quality could undermine the demand for education among poor groups.

14. **Highly variable social conditions, public spending levels and managerial/teaching efficiency contribute to highly variable outcomes across Tanzania.** Spending per child can be three or four times higher from one district to the next. The level of spending is strongly correlated with educational outcomes, with evidence of diminishing returns in the best-resourced districts. But unequal levels of spending are very persistent. The current system has difficulty responding to this problem. In addition, some districts achieve far better educational outcomes than others with the same level of resources and social conditions. Something aside from environmental factors causes some districts to be far more efficient than others. We assume that managerial efficiency and teacher effort, measured by such indicators as teacher absenteeism, are among the causes. Hence, there is a strong need to examine what's going on in districts identified as highly inefficient, unrelated to the level of resources or social conditions. Tanzania might achieve current educational outcomes at an annual saving of TShs 250 billion (one quarter of the primary education budget), if all districts achieved the efficiency found in Tanzania's "frontier" districts.

15. **Directing incremental resources to underserved districts would improve learning outcomes, equity and efficiency.** Inequalities in resources and results are pronounced, and there is strong evidence that shifting incremental resources to the worst served areas is likely to improve efficiency rather than reduce it. The worst served districts tend to have worse social conditions that push up cost, but the marginal impact of spending would be highest in the worst served districts even despite this effect. Hence, equity and efficiency imperatives are aligned and it is essential to find a way to shift incremental resources to the worst served districts.

16. **Secondary education is both a success and a problem.** The success is that the speed of expansion has been extraordinary and has made great progress in rectifying Tanzania's historic deficit in post-primary education. The corresponding problem is that resources are spread more and more thinly over the increasing numbers of pupils, which is creating a critical quality problem in secondary education outside a small group of excellent schools. This destroys value for money, as in 2010, Tanzania spent more than TShs 8 million for every Division (DIV) I-III Form 4 passer compared with just TShs 4 million in 2008. The rapid pace of expansion seems to have outstripped the supply of suitably skilled teachers. The output of well educated secondary graduates is now falling despite the huge expansion in student numbers.

Public Investment Management

17. **Lack of public investment program that aims to enhance strategic consistency and coordination of public investments within a program based approach.** Tanzania could usefully develop a national public investment program (PIP) that brings together all the investment projects that fit within its national and sectoral strategies to avoid proliferation of low-impact, unrelated, and small sized projects. A PIP also provides a framework for interaction with donors and channeling aid flows to priority areas. Countries that have developed a coordinated PIP have made it easier for central institutions to prioritize, implement, and monitor and evaluate projects. In Tanzania, failure to prioritize road projects in 2010 led to over-commitments that had macro impacts as well as real costs (penalties).

18. **Despite having launched several well thought and thorough strategic plans, such as Vision 2025 and MKUKUTA II, it is unclear what role each is to play within Tanzania's national and sectoral planning processes.** The MKUKUTA II serves as the new government poverty reduction strategy, and the MoF's Poverty Eradication Department (PED) is working out an implementation plan. At the same time, the President recently instructed the President's Office Planning Commission (POPC) to develop a 15-year strategic plan (and, within that, a five-year strategic plan) for the administration as a means to reach the goals set forth in Vision 2025. In addition, most sectoral ministries have developed their own medium-term strategic plans. It is important to bring order to this web of planning exercises.

19. **Even though a web of national strategies exists, no central public agency was seen, until recently, as in charge or taking charge of its implementation.** Recently though, the President has tasked the POPC with making these strategic plans operational. This is a welcome development. However, without a uniform public investment management process for the whole of government and data on each project, it will be extremely complicated to ensure that the high impact projects are chosen and will produce their intended results in growth and poverty reduction. The government has realized this shortcoming and intends strengthen its ability to prioritize its interventions.

20. **To be successful in their intention to focus more sharply on prioritization across the whole of government, authorities need to assign clear roles for the POPC, MoF, central agencies that have a role to play in this process.** Currently, each agency is acting on its own mandate, issued directly by the President or embedded in Tanzania's laws and regulations. It will be important to agree on the roles and responsibilities of the POPC and the MoF, respectively, in the PIM process and come to a common understanding of what these two key institutions will and will not do. In addition, it could be worthwhile to set up a secretariat in which both the MoF and the POPC are represented that will coordinate the overall process of project selection, evaluation (ex ante and ex post), and monitoring of project implementation.

21. **To analyze the effectiveness and efficiency of Tanzania's public investment program (PIP), basic information about its costs, outputs, and outcomes must be collected and analyzed centrally.** Currently, the MoF collects expenditure data on the development budget, but no other information about Tanzania's public investment program is available centrally at the MoF, the POPC, or at the Prime Minister's Office (PMO). The line ministries, most of which do

collect information regarding their projects, receive little or no guidance from central ministries on how to prepare, evaluate (ex ante or ex post), or monitor their projects.

22. **Standardized and uniform information needs to be centrally collected on each project to allow for prioritization of Tanzania's scarce public resources across the whole of government.** This could be greatly facilitated by the instigation of a process through which each public investment project must pass before being incorporated in the country's MTEF and annual budget. Such a process should allow for various evaluation points at which its viability is checked by the central agencies and, when it is found to lack the required impact or the information needed to make such a judgment, is sent back. This process could vary with the size of the projects, but the central agencies will need to make an explicit decision about the viability of the project before it is granted inclusion in the MTEF and annual budget. Currently, these decisions are basically left to the line ministries, which are well suited to prioritizing within their own sectors but not for the government as a whole.

23. **Phased implementation of the proposed improvements as capacity gets built is needed, and focus should be on those projects or sectors where larger projects are taking place and/or where large improvements in effectiveness can be expected through a more rule based system of project appraisal.** The PIM diagnosis has focused squarely on how to improve the coordination and decision making process at the center and, as such, on the quality at entry part of the project cycle. It has not delved into the implementation and ex post evaluation phases of the public investment cycle, not because they are unimportant, but because once uniform information has been gathered, these issues can be better analyzed and more informed improvements proposed. In recognition of these issues, MoF recently set up a productivity unit that is to gather information about government expenditure programs and investment projects.

CHAPTER 1

BUDGET ANALYSIS

INTRODUCTION

1.1 The main objective of the budget analysis chapter is to provide an overall assessment of how well the approved budget allocations in 2010/11 align with the strategic objectives and with sector strategic priorities of the Second National Strategy for Growth and Reduction of Poverty (known by its Kiswahili acronym, MKUKUTA II). It also assesses the consistency of the actual spending and approved budget in 2009/10. In evaluating the alignment of the budget and MKUKUTA's strategic objectives and sector strategic priorities, the analysis gauges the accuracy and reliability of the macro and budget framework, share of the budget allocated to MKUKUTA cluster strategies, share of the budget allocated to capital investment, and strategic prioritization within key sectors.

1.2 This budget analysis chapter summarizes nine background notes that covered six key sectors and three thematic areas. The six key sectors are education, health, water, roads, energy, and agriculture; the three thematic areas are the wage bill, local government, and aggregate analysis. The six sectors were selected because they consume approximately 60 percent of the overall budget and are keys to achieving the MKUKUTA strategic objectives of growth and reduction of poverty. The three thematic areas were selected because of their crosscutting nature, as they touch each key sector but also are critical for achieving the MKUKUTA strategic objectives.

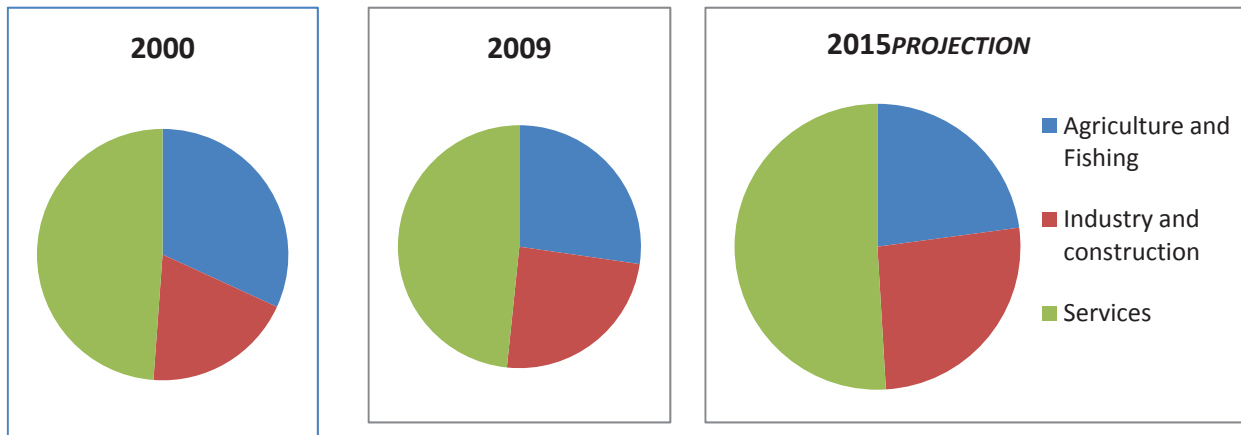
MEDIUM TERM MACROECONOMIC AND BUDGET FRAMEWORK

Medium Macroeconomic Context

1.3 **The 2000s represented a decade of accelerated growth for Tanzania;** GDP increased 5-7 percent per annum during that period. High birthrates and longer lives meant GDP per capita grew at more like 4 percent per annum.

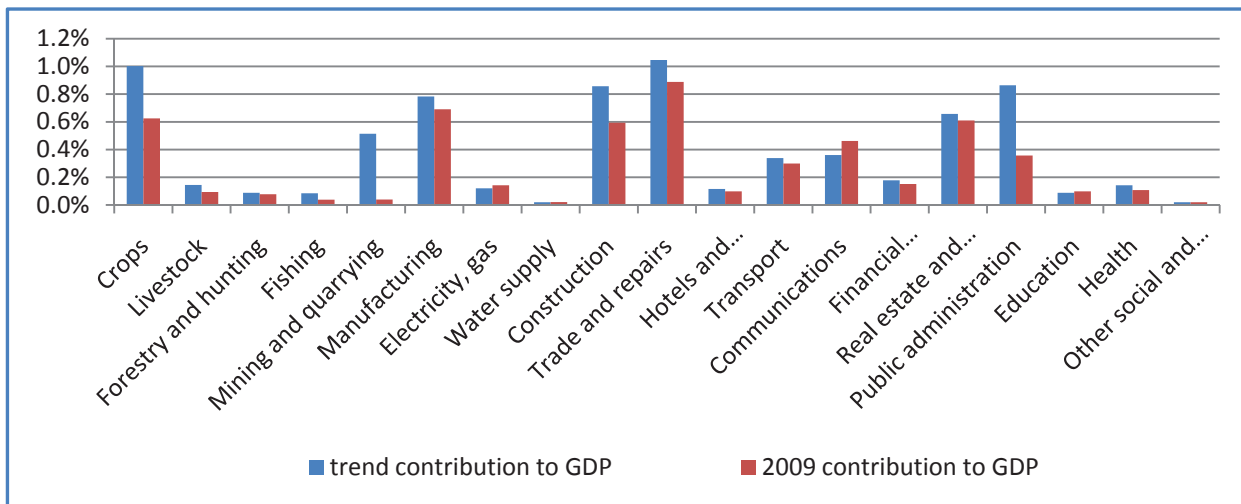
1.4 Figure 7 show that, fundamentally, the structure of production has changed very little over the period, although the share of agriculture has declined gradually and is expected to continue to do so. Looking to 2015, the government forecasts particularly significant growth in manufacturing, construction, and petty trading/services.

Figure 7. Steady Structure of Production



1.5 Tourism, mining and manufacturing have grown, **but greater growth has been in sectors meeting domestic demand:** food and non-traded or non-tradable goods and services like construction, trade and repairs, and telecommunications (Figure 8). Domestic demand has been fueled by domestic credit growth, foreign investment, aid and debt relief, and expanded export earnings.

Figure 8: Sectoral Contribution to Growth, Trend and 2009



1.6 **For part of the 2000s, Tanzania managed rapid output growth with relatively low inflation.** Inflationary pressure started to build gradually from 2005, and prices accelerated in 2008, when inflation reached 12 percent. But inflationary momentum drained away through 2010 such that inflation reached 4.5 percent in September. The exchange rate in general depreciated gradually against Tanzania's main trading currencies during 2005-2010. There was a significant depreciation against the dollar in late 2008 and an even more significant depreciation has occurred from July 2010. This need not spark a resurgence of significant inflation in Tanzania, since major import items are fuels and capital goods whose prices have their own momentum.

Figure 9: Inflation and Exchange Rate Dev.

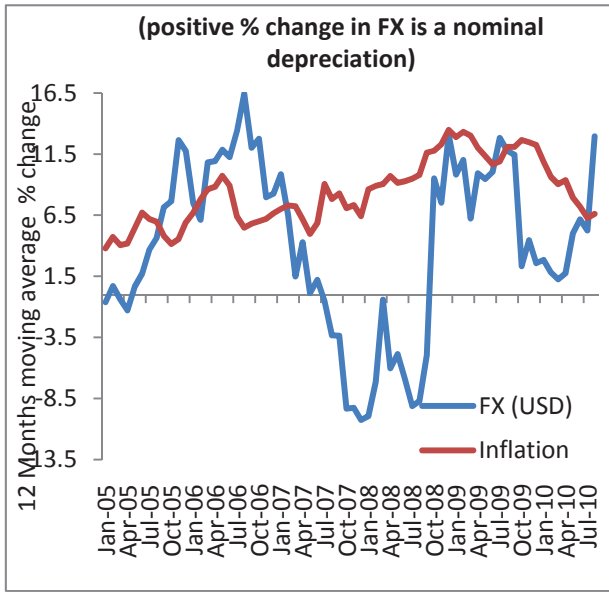
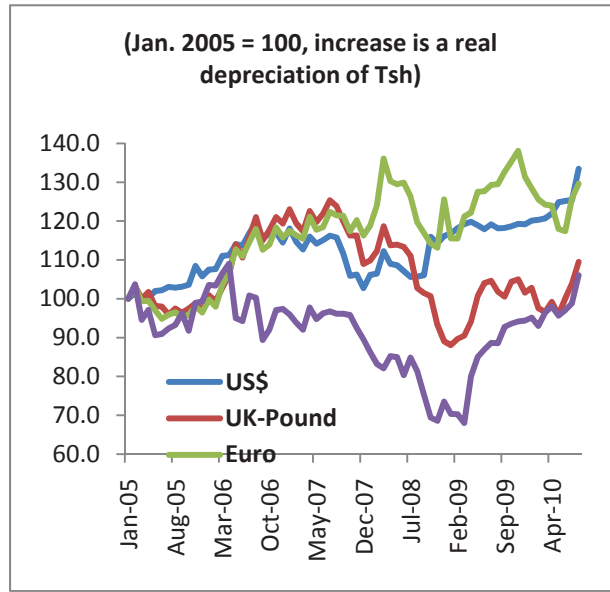


Figure 10: Real Bilateral Exchange Rate Mov.



1.7 Following debt relief and until 2009, Tanzania has been very cautious about amassing further public debt and adopted a fiscal “anchor” of no net domestic borrowing. With growth, this has meant that Tanzania’s debt stock has reached very manageable levels below 40 percent of GDP. From 2009/10, controlled domestic borrowing has been within the bounds of the sustainable debt management.

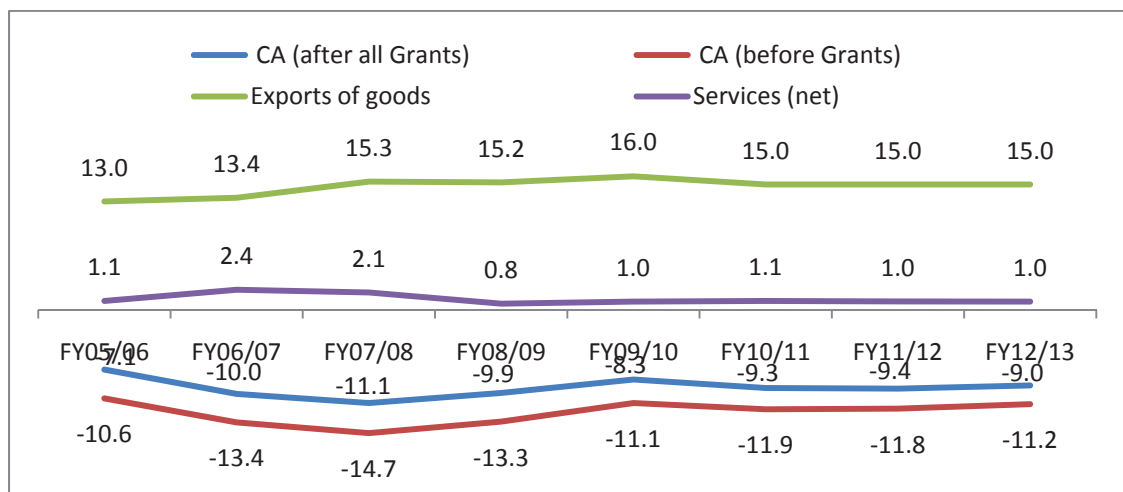
1.8 The outlook for Tanzanian growth is positive, but with considerable potential downsides. Growth of 6 percent in 2009 is estimated to increase to 7 percent in 2010, and it could rise to 7-8.5 percent thereafter provided that the investment climate is improved and the impact of less buoyant economic and fiscal trends in OECD countries is limited.

Impact of the Global Crisis

1.9 **For a mixture of reasons, the global crisis has had less of an impact on Tanzania’s GDP than had been forecast.** Tanzania’s low-gearred banks and fairly inward-looking pattern of growth insulated it from the financial shock and, to a degree, from external demand shocks. As it turned out, the terms of trade effects of the crisis were generally quite positive for Tanzania, and the import bill declined faster than the export earnings largely due to falling prices of fuel and intermediate goods. Figure 8 shows that many productive sectors saw below trend growth in 2009, not least crops, although this had more to do with a drought affecting food production in Northern Tanzania than the impact of global demand.

1.10 **There has been no banking crisis in Tanzania.** Into the 1990s the banking system was simply taking deposits and lending to government and parastatals in a directed way. But at the end of that decade, privatization and new macroeconomic policies encouraged banks to lend to the private sector, and through the 2000s, there was very fast growth in private sector credit; it exceeded 30 percent in some years. This is from such a low base that most banks are still very liquid and Tanzania does not share the troubles of the European or American banking systems. However, there was a marked reduction in the growth of credit to the private sector in late 2008.

Figure 11: Current Account Deficit Reduces in Downturn

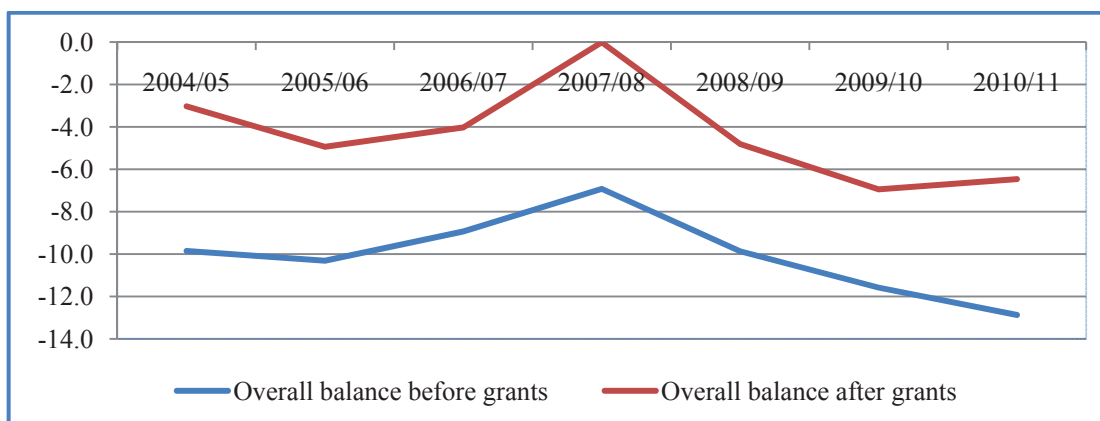


1.11 **Tanzania was vulnerable to a collapse in foreign investment and especially to a collapse in aid flows during the crisis. Neither of these threats materialized.** The current account deficit narrowed from 14.7 percent of GDP in 2007/08 to 11.1 percent of GDP in 2009/10, principally due to a fall in import prices. But in 2009/10 gross reserves grew by 2.3 points of GDP.

Medium Term Fiscal Outlook

1.12 **Fiscal deficit has continued to rise.** While revenue and aid (as percentage of GDP) has stagnated, public spending continues to increase, and the fiscal deficit has also continued to expand. The fiscal deficit (after grants) reached 6.9 percent of GDP in 2009/10, up from 4.5 percent in 2008/09 (Figure 1). It is expected to come down slightly to 6.5 percent of GDP in 2010/11. The deficit was financed by relaxing further the limit on net domestic financing (NDF) to 1.8 percent of GDP, supplemented by increased concessional foreign borrowing, which reached 4.5 percent of GDP.

Figure 12: Fiscal Deficit



1.13 **The government of Tanzania was successful at creating fiscal space for most of the 2000s** by relying principally on domestic revenue as well as increased aid grants and loans with little domestic and no non-concessional foreign borrowing. From 2002/03 through 2008/09, fiscal resources increased by 9.1 percent of GDP, and this was financed 56 percent from domestic revenue, 26 percent from aid grants and loans, and 18 percent from domestic borrowing.

Table 1: Sources of Fiscal space Pre- and Post- 2008/09 and in the 2010/11 Budget

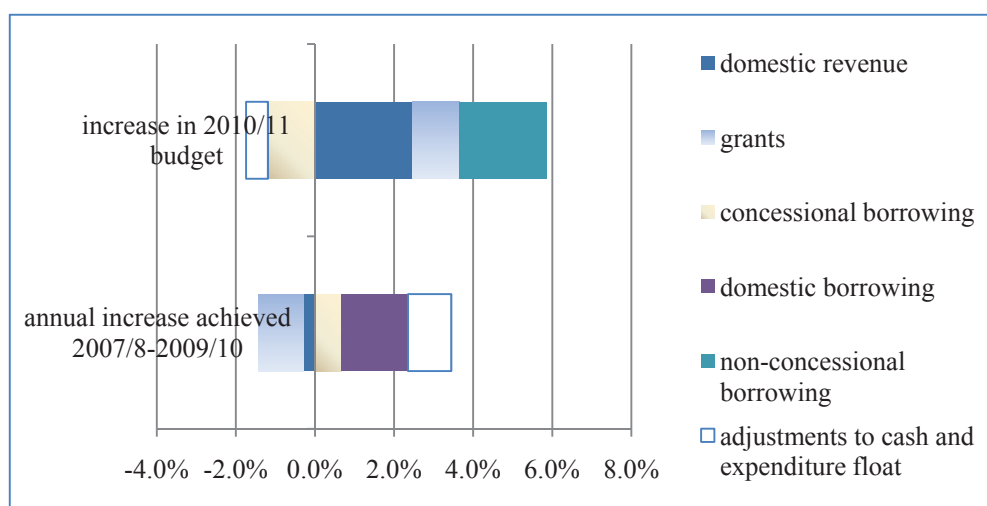
	2004/05-2007/08 (actual)		2007/08-2009/10 (actual)		2009/10-2010/11 (attempted in budget)	
	change	contribution	change	contribution	change	contribution
Fiscal Space	2.3%		4.2%		4.1%	
domestic revenue	4.4%	194.9%	-0.6%	-14.0%	2.5%	60.8%
grants	2.2%	96.9%	-2.2%	-54.0%	1.2%	29.2%
concessional borrowing	-0.6%	-26.0%	1.4%	32.6%	-1.2%	-28.6%
domestic borrowing	-2.5%	-110.0%	3.4%	81.3%	0.0%	-0.8%
non-concessional borrowing	0.0%	0.0%	0.0%	0.0%	2.2%	54.3%
adjustments to cash and expenditure float	-1.3%	-55.7%	2.2%	52.9%	-0.6%	-13.6%

1.14 **The means of increasing fiscal space changed from 2008/09.** There has been no increase in the share of GDP raised in domestic revenue since 2007/08 (Table 1). Grants have not kept up with GDP. So fiscal space has been created by increasing borrowing from concessional sources, in the domestic market, and, in the 2010/11 budget, from commercial external financiers. The contrast in pre- and post-2008/09 is very clear in table 3. In 2004/05-2007/08, fiscal space was increased by 2.3 percent of GDP by increasing domestic revenue and grants while borrowing reduced (absorbing some of the fiscal space). A further 4.2 percent of GDP was added in just two years (2007/08-2009/10), but contributions were very different. Domestic revenue and grants were actually a drag on fiscal space, and expansion came from

concessional and domestic borrowing. Of course, this change was due to the attempt to maintain and boost spending during the downturn of 2009-2010.

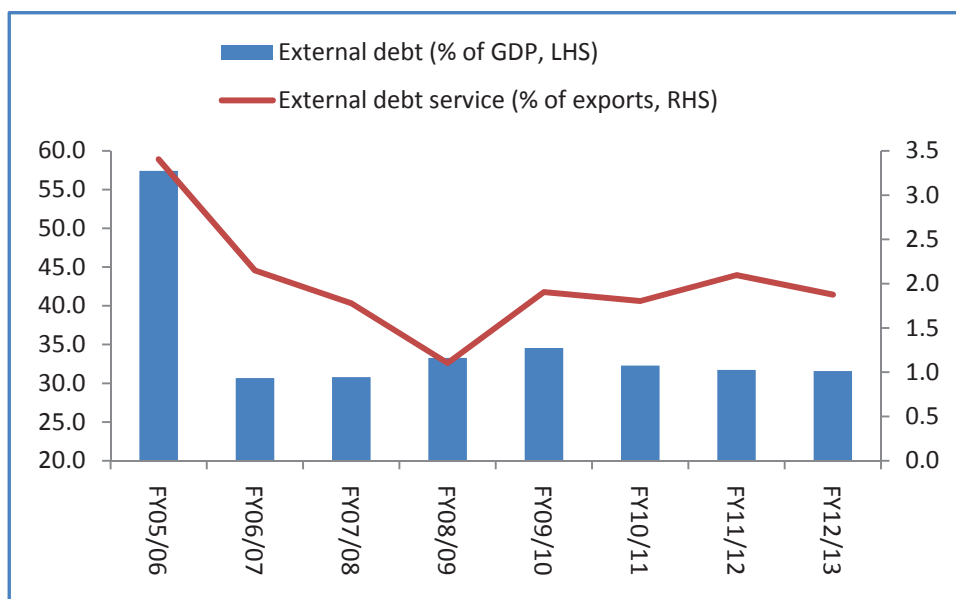
1.15 **As Table 1 and Figure 13 indicate, the 2010/11 budget projections for fiscal space are exceptional.** Compared with the actual achievement in 2009/10, this budget sought to increase fiscal space by 4.1 percent of GDP in one year as Tanzania came out of the slowdown of 2009/10. This very rapid expansion in spending (quite different from that agreed in the IMF's PSI weeks before this budget was announced) required a 2.5 percent increase in domestic revenue despite falling performance in the previous two years; a 1.2 percent increase in grants despite falling budget support commitments; a maintenance of domestic borrowing at the maximum agreed during the downturn; and substantial increase in non-concessional foreign borrowing worth a further 2.2 percent of GDP (concessional borrowing was expected to decline following the “front-loading” of World Bank lending in 2009/10).

Figure 13: Ambition in the 2010/11 Budget – increases as % GDP



1.16 **The 2010/11 budget planned borrowing at the upper limit recommended in the Debt Sustainability Analysis. Other factors make permanent debt-financing of the budget a potential concern.** It is within the constraint of debt sustainability for Tanzania to add about 2 percent of GDP to fiscal space with domestic and foreign borrowing in the next two years. Debt sustainability analysis shows that Tanzania could borrow at this higher level without encountering debt problems, provided the funds are productively invested. The public sector debt is below 40 percent of GDP, so net borrowing at approximately 2 percent of GDP will not increase that stock if it supports 7 percent GDP growth. Caveats are: what happens to medium term competitiveness if foreign debt is used for current consumption instead of investment in competitiveness? What happens to debt sustainability if foreign debt is much more expensive than assumed? Is the true level of borrowing even higher due to hidden arrears financing? Is the domestic banking system sustaining its lending to the private sector now that government has started borrowing from it again? All these risks are real in Tanzania.

Figure 14: External Debt and GDP



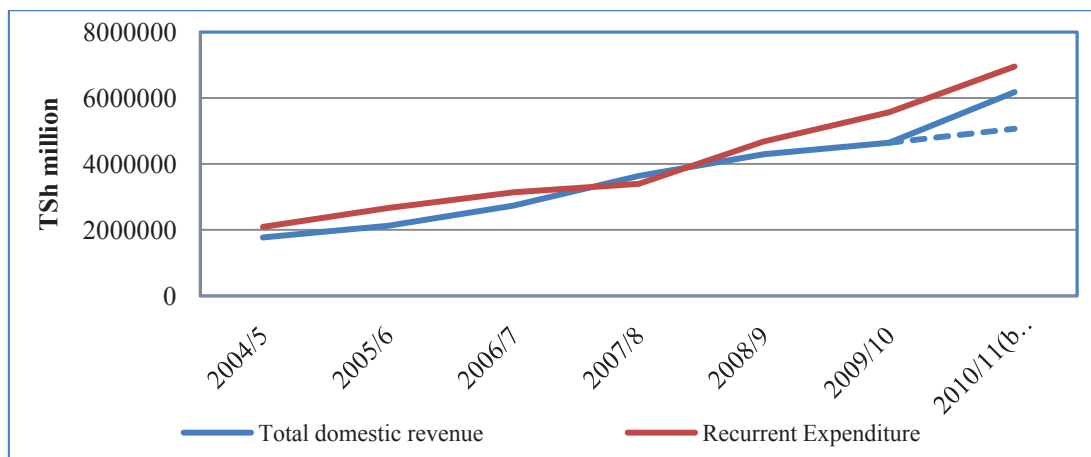
1.17 **On the financing side, government seems to have significantly overestimated domestic revenue, and possibly also non-concessional finance and aid.** Domestic revenue is estimated to be TShs 500 billion below target at least. It remains to be seen whether concessional borrowing can be mobilized at acceptable rates and terms.

1.18 **Indications are that government will use a combination of planned expenditure cuts in the midterm budget review, modest revenue measures, and foreign bank loans to finance 2010/11 expenditure below the planned level by at least 1.5 percent of GDP.** Cash budgeting meant that spending in the first and second quarters was restrained (almost TShs 1 trillion below original estimates), although this TShs 1 trillion has not actually been trimmed from budgets; technically it is just postponed. Approximately TShs 300 billion of low priority expenditures were identified in the Mid-Year Budget review, such that government need retain only TShs 200 billion of the TShs 1 trillion under-spent in the first and second quarters to make up for the expected revenue shortfall of TShs 500 billion. In addition, TShs 800 billion of non-concessional finance from foreign banks still has not been mobilized, so there is some risk that these resources won't be mobilized or won't be absorbed in 2010/11, and there is a possibility that domestic revenue may underperform by more than TShs 500 billion. The likelihood is that further use of cash budgeting will limit expenditures to the availability of resources, notwithstanding the tendency to accumulate arrears that has emerged in certain sectors.

1.19 **Spending additional to budget estimates has been undertaken largely in energy and transport sectors, financed by arrears.** The level is estimated at TShs 255 billion, equivalent to 0.73 percent of GDP, as of March 2011. There is an intention to cut planned development spending by TShs 255 billion to pay off unpaid bills before the end of 2010/11. Should further amounts of unpaid bills arise, the likelihood is that they will be carried over into 2011/12.

1.20 On the macro level, Tanzania might be financing little more than 50 percent of actual expenditures with domestic revenue in 2010/11. This will leave a considerable re-adjustment challenge for 2011/12, especially if there is a significant carryover of arrears. The planned budget involved a 20 percent real increase in public spending compared with 2009/10. Even with TShs 500 billion in cuts, this leaves a high level of recurrent commitments to maintain. As there is very little scope for expanding any type of borrowing beyond 2010/11 levels, it will be difficult for government to meet recurrent commitments or increase investment spending without a major cost-cutting drive. Government may also consider new tax measures, as the scope for increasing revenue as a share of GDP now seems, owing to administrative improvements, greatly diminished compared with the mid 2000s.

Figure 15: Recurrent Budget and Domestic Revenue



1.21 The budget remains less credible and less relevant and can leave a distorted and sub-optimal pattern of commitments going into the next budget. In the 2010/11 budget, recurrent spending is planned at 20 percent of GDP, while domestic revenue is planned at 17.8 percent and is likely to be 15-16 percent of GDP in reality (dotted line in Figure 15:). In fact, recurrent expenditures are even higher than this because the development budget conceals a large quantity of non-capital elements (Table 10). The sanctity of the “golden rule,” which suggests that recurrent spending should be financed from current revenue, is not demonstrated in Tanzania. In addition, a switch to higher debt financing coincident with a reduction in true capital spending will be bad for medium term competitiveness, a situation Tanzania does face. There are further problems even if capital spending does not suffer disproportionately. Cash budgeting is crude and can result in sub-optimal expenditure cuts. For example, it can cut high priority discretionary items that complement other non-discretionary items resulting in waste, for example cutting fuel without cutting the wages of workers who need the fuel to work. Likewise, unplanned, arrears-financed spending is, by definition, not the highest priority and can cause over-commitment in the development budget, which will prevent projects from being completed in future years. The budget is a tool for maximizing the utility of public resources within a constraint. If the constraint is seriously underestimated and the budget’s plans are ignored, the quality of public spending falls.

Revenue and Aid Outlook

1.22 **Revenue collection improved rapidly in the middle part of the 2000s but slowed down a great deal from 2008/09.** Until 2008/09, the Tanzania Revenue Authority (TRA) and other domestic collecting agencies met the revenue targets set in the budget. Tanzania managed, for several years running, to achieve increases in domestic revenue on the order of 1 percent of GDP despite virtually no tax rate increases; this was the result of administrative improvements and dispute settlements.

1.23 **Since 2008/09, revenue targets have proved increasingly over-ambitious, and revenue appears to have reached a ceiling at around 16 percent of GDP lower than targets of 17-18 percent of GDP.** In 2009/10, domestic revenue actually fell to 15.3 percent of GDP, a level not seen since 2006/07. Table 2 shows that in 2006/07-2009/10, only income tax and “other tax” have increased significantly as a share of GDP. Non-tax revenue is inexplicably falling as a share of GDP despite high commodity prices (gold). Value added tax is increasing only slightly faster than GDP. The implications are that if domestic revenue is to increase further as a share of GDP, specific measures will need to be taken, including broadening the tax base and reducing tax exemptions.

Table 2: Domestic Revenue Performance

% GDP	2006/07 Budget	Actual	2007/08 Budget	Actual	2008/09 Budget	Actual	2009/10 Budget	Pre. 1 Actual	2010/11 Budget
Domestic revenue	12.7%	14.1%	15.3%	15.9%	18.0%	16.2%	17.3%	15.3%	17.8%
Tax revenue	11.7%	13.0%	13.9%	14.7%	16.9%	15.3%	16.0%	14.6%	16.2%
Import Duty	0.9%	1.2%	1.4%	1.3%	1.6%	1.4%	1.4%	1.2%	1.3%
Excise Duty	3.8%	2.7%	4.2%	2.9%	4.7%	4.6%	4.9%	2.8%	3.1%
Value Added Tax	2.7%	4.3%	2.9%	4.6%	3.5%	2.9%	3.2%	4.6%	5.4%
Income Tax	3.2%	3.7%	3.6%	4.3%	5.3%	4.6%	4.7%	4.4%	4.7%
Other Taxes	1.0%	1.1%	1.9%	1.7%	1.8%	1.7%	1.8%	1.6%	1.7%
Nontax revenue	1.0%	1.1%	1.4%	1.2%	1.1%	0.9%	1.4%	0.7%	1.5%

1.24 **Despite rapid economic growth and rapid increase in domestic revenue mobilization, foreign aid loans and grants have remained a significant and fairly steady share of GDP** and a highly significant financing item in the budget. Table 3 shows that grants have been fairly stable at just below 5 percent of GDP in recent years, although they were higher in 2007/08. The government appears to have difficulty estimating the likely flow of grants; project grants are the least predictable financing item. In 2007/08, grants were double the level of aid loans. This was so in the 2009/10 budget, but in reality loans and grants were at equal levels that year. About 60 percent of aid in Tanzania has been relatively predictable budget aid in the form of general budget support or basket funding, although the government expects this share to drop significantly in 2010/11. Budget support and basket funding are both forecast to fall from a combined 3.1 percent of GDP in 2009/10 to just 2.4 percent of GDP in 2010/11.

1.25 Foreign borrowing has all been highly concessional up to at least 2009/10 and has been roughly 3.6 percent of GDP except in 2009/10, when some anti-cyclical fast disbursing budget support pushed it up to 4.5 percent of GDP due to frontloading of the World Bank support through the Poverty Reduction Support Credit 7 Supplemental Financing (PRSC 7 SF).

1.26 **The outlook for aid financing is reasonable, but it is uncertain whether aid will maintain its share of GDP or the budget in the medium term.** Tanzania has dropped somewhat in various rankings like Public Expenditure and Financial Accountability (PEFA) and Country Policy and Institutional Assessment (CPIA), which may depress aid levels. The level of general budget support seems to be reducing in 2010/11, and this may be a measure of Tanzania's perceived aid worthiness. However, the main risk remains donors' willingness to finance rapidly expanding aid programs in Tanzania when they are facing fiscal problems of their own.

Table 3: Aid Financing

% GDP	2006/07		2007/08		2008/09		2009/10		2010/11
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Prel. Actual	Budget
Grants	7.4%	4.9%	7.4%	6.9%	5.4%	4.7%	6.9%	4.6%	5.8%
Program	2.4%	2.5%	2.7%	2.7%	2.1%	2.3%	2.7%	2.2%	1.8%
Project	2.2%	1.2%	3.0%	2.8%	2.4%	1.2%	2.8%	1.5%	3.4%
Basket support	1.1%	0.6%	0.8%	0.9%	0.8%	1.0%	0.9%	0.9%	0.6%
MDRI (IMF)	1.7%	0.6%	0.9%	0.5%	0.3%	0.3%	0.4%	0.1%	0.0%
Foreign borrowing (net)	3.8%	3.7%	3.6%	3.2%	3.6%	3.6%	3.4%	4.5%	3.4%
Program Loans	1.7%	1.4%	1.2%	1.6%	1.0%	1.3%	1.2%	1.8%	0.5%
Project loans	1.9%	2.2%	2.2%	0.9%	1.9%	1.8%	1.4%	2.3%	2.2%
Basket support	0.5%	0.2%	0.4%	0.9%	0.8%	0.6%	1.0%	0.6%	0.7%
Amortization	-0.3%	-0.2%	-0.2%	-0.2%	-0.2%	-0.1%	-0.2%	-0.2%	-0.1%

Budget Allocation Analysis – 2010/11

1.27 This section on analysis of the 2010/11 budget allocations covers four main areas. These areas include allocation as per MKUKUTA, broad functions, major sectors, and economic nature of spending. The areas covered under this analysis are selected based on their cross-cutting nature. The main objectives of analyzing the budget across the four main areas is to determine whether the 2010/11 budget has remained focused on economic growth as spelled out in MKUKUTA II and key sectors' strategic policy objectives. In addition, this analysis pays particular attention to the wage bill and allowances, implementation of the D by D policy, and implementation of the maintenance policy. While it focuses on the 2010/11 budget, the analysis also looks back on actual spending trends in some key areas and sectors in 2009/10.

By MKUKUTA

1.28 **More than 70 percent of the 2010/11 budget is allocated to MKUKUTA** (Table 4). The share of the budget allocated to MKUKUTA shows some notable increase in 2010/11, with the caveat that the funding for such budget is not fully secured. The identified financing gap in the budget would need to be filled to maintain the current share of the budget allocated for MKUKUTA interventions. While a large share of budgetary resources remains allocated to MKUKUTA, a thorough review and assessment is needed to ascertain whether all cluster strategies are meaningful for achieving MKUKUTA objectives. There is also a need for thinking

about building a more robust and simplified classification that could map budget allocations to the MKUKUTA broadly.

Table 4: Budget allocation between MKUKUTA and non-MKUKUTA

	2007/08	2008/09	2009/10	2010/11
Incl. LGAs transfers, but excl. MDAs wages				
Total MKUKUTA	64.5%	62.0%	59.8%	66.3%
Non-MKUKUTA	35.5%	38.0%	40.2%	33.7%
Total	100.0%	100.0%	100.0%	100.0%
Incl. LGAs transfers and MDAs wages				
Total MKUKUTA	70.6%	70.8%	71.2%	73.2%
Non-MKUKUTA	29.4%	29.2%	28.8%	26.8%
Total	100.0%	100.0%	100.0%	100.0%

Source: MoFEA, IFMS data and author's computation

1.29 **Cluster 1, economic growth and reduction of poverty, receives the largest share of the MKUKUTA allocations** (Table 5). This reflects a shift toward prioritizing economic growth and poverty reduction from social well being. The increased cluster 1 share is consistent with the government policy of promoting economic growth by improving economic infrastructure services and productive sectors. Consequently, the increased cluster 1 share is on account of a huge increase in allocations for roads and agriculture sectors in the 2010/11 budget. This increase is also consistent with the MKUKUTA II strategic objectives. The MKUKUTA II puts more emphasis on economic growth as a sustainable means of reducing poverty. The increase in the share of cluster 1 is compensated by reduction in all other clusters as well as non-MKUKUTA allocations. There is also a significant reduction in cross-cluster allocations, which suggests some decline in spending that cuts across clusters, such as capacity building programs. However, as noted above, the identified financing gap in the budget would reduce the cluster 1 share if not filled, given that a large part of the gap is expected to be filled by non-concessional external borrowing earmarked for infrastructure spending. Again, since a large share of spending in cluster 1 is for capital spending, execution of the development budget would need to be improved to realize intended MKUKUTA II growth objectives.

Table 5: Budget allocation between MKUKUTA clusters (shares)

	2007/08		2008/09		2009/10		2010/11	
	% of Mkukuta	% of Overall	% of Mkukuta	% of Overall	% of Mkukuta	% of Overall	% of Mkukuta	% of Overall
Cluster I	33.1%	23.4%	34.1%	24.1%	39.2%	27.9%	44.8%	32.8%
cluster II	45.0%	31.8%	45.5%	32.2%	42.7%	30.4%	39.8%	29.1%
Cluster III	16.5%	11.7%	16.0%	11.3%	15.0%	10.7%	13.9%	10.2%
Cross Cutting	5.4%	3.8%	4.4%	3.1%	3.1%	2.2%	1.5%	1.1%
Total MKUKUTA	100.0%	70.6%	100.0%	70.8%	100.0%	71.2%	100.0%	73.2%
Non-MKUKUTA		29.4%		29.2%		28.8%		26.8%
Overall		100.0%		100.0%		100.0%		100.0%

Source: MoFEA, IFMS data and author's computation

Table 6: Budget and actual spending in selected non-MKUKUTA votes (shares)

Vote code	Vote name	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 Budget
22	Public Debt	10.8%	10.0%	9.1%	9.1%
28	Police Force	2.8%	2.4%	2.1%	2.5%
29	Prison Service	1.4%	1.2%	1.2%	1.0%
30	President's Office	3.8%	3.3%	2.7%	2.2%
34	Foreign Affairs	1.5%	1.3%	1.2%	1.0%
38	Defence	4.0%	3.9%	4.1%	3.5%
39	National Service	0.9%	0.9%	1.2%	0.9%
42	Natinal Asseblly Fund	1.8%	0.9%	0.8%	0.5%
57	Ministry of Defence	1.2%	1.3%	0.4%	1.3%
21,50	Treasury & MoFEA	3.2%	6.4%	6.1%	13.2%
Sub total		31.3%	31.6%	29.0%	35.3%
Grand Total		100.0%	100.0%	100.0%	100.0%

Source: MoFEA, IFMS data and author's computation

1.30 **In non-MKUKUTA spending, the share of allocations for public debt and general services is the largest.** Although its share declines in 2010/11 compared with previous years, it is still 9 percent of the overall budget (Table 6). A large share of allocations in this vote (22—approximately 50 percent) is for spending on general services items such as pension and social benefit contributions. Public debt service consumes approximately 40 percent of the allocations in this vote, most of it allocated for paying interest on domestic debt. Foreign debt service consumes slightly less than 10 percent of the entire allocation to the vote. The low budgetary allocations for debt service are consistent with debt sustainability analysis (DSA), which shows the debt sustainability indicators for Tanzania to be low. Nonetheless, given that a large part of the budget, especially the financing gap, increasingly is being financed through non-concessional external and domestic borrowing, allocations for debt service will increase in the future, which may reduce allocations for other key areas. Therefore, it is important to ensure that the non-concessional external borrowing earmarked for infrastructure investment is channeled to high return investments with high potential for economic growth and revenue generation.

1.31 **Increasingly, a large share of the budget remains unallocated despite knowing spending plans during budgeting time.** The contingency funds (both emergency and non-emergency) have increased over time and now constitute 7 percent of the total recurrent budget. Allocation for contingency is a good idea during a period of uncertainty or crisis, as has occurred recently in Tanzania. Nevertheless, appropriate size and transparency, both ex ante and ex post, are important in allocation and spending of the contingency funds. A too large contingency reduces the credibility of the budget as a tool for planning and resource allocation. Also, reallocating funds from a too large contingency to other votes at some stage during the budget implementation causes some unnecessary disruptions in planning and may impact on the quality of spending. Hence, it is also important to appreciate size of contingency while ensuring transparency (both ex ante and ex post) in allocation and spending, especially for contingency emergency. Moreover, for non-emergency contingency allocations, since the spending plans are known by the time of budgeting, it is important that these funds are allocated in relevant spending votes.

By Broad Functions

1.32 **Economic and social services provision is the government's main priority in the 2010/11 budget.** The government continues to prioritize provision of economic services, including roads, energy, railways, and ports, and social services, such as education, health, and water in 2010/11 budgetary allocations. Increased allocations for roads, health, and education are the main drivers of increased share allocations for economic and social services, especially in the development budget. About 50 percent of the budget is allocated in two broad areas.

1.33 Table 7). Prioritization of the economic and social services provision is consistent with the government intention of achieving the MKUKUTA II strategic objective of economic growth as a sustainable means of reducing poverty. However, the main challenge will be to ensure the full execution of expenditure programs in these sectors, given that they are mostly development programs that can be subjected to budget cuts in case of revenue shortfalls. The budget's already identified financing gap poses the main risk to these expenditure programs, as the development budget would be subject to cuts in case of failure to close the gap through non-concessional external borrowing. The other challenge would be the capacity constraints associated with planning and execution of development projects, especially where capital investment is high, as in the roads and energy sectors.

1.34 **Productive services, defense and security, and debt service have all seen their budget shares decline in 2010/11.** However, the share of productive services may be higher than what is indicated in

1.35 Table 7 once some of the budgetary allocations for Kilimo Kwanza included in administration functions (vote 21, Treasury) have been reallocated into the Ministry of Agriculture and Food Security (MAFS, vote 43). Reallocation of these budgetary resources will see that the share of productive services rises while the share of administration declines. The share of administration will also decline further once budgetary allocations for the Millennium Challenge Account (MCA) infrastructure projects (under vote 21, Treasury) are also reclassified to economic services.

1.36 **The development budget for economic and social services is predominantly foreign funded.** While the share of foreign funds going to provision of economic services increases in the 2010/11 budget, the share of local funds declines. Despite the decline, the share of local development funds going to provision of infrastructure services is significantly larger than foreign development funds. In social service, the share of foreign development funds is larger than local funds, which indicates development partners' preference for provision of the key social services, such as water, health, and education services. However, the share of local funds in development budgets of social services increases from 2009/10 to 2010/11. Expansion of social infrastructure, such as construction and rehabilitation of secondary schools and health centers in every ward, is the main driver of increased local development funds to social sectors. As noted already, the identified financing gap in the budget is the main risk to these expenditure programs, as the local development budget would be subjected to expenditure cuts in case of shortfalls in projected revenue.

Table 7: Budget allocation between broad functions (shares)

	2007/08					2008/09					2009/10					2010/11				
	Rec	Dev			Total	Rec	Dev			Total	Rec	Dev			Total	Rec	Dev			Total
		Local	Foreign	Total			Local	Foreign	Total			Local	Foreign	Total			Local	Foreign	Total	
Broad Functions																				
Administration	23.1	15.9	15.3	15.5	20.3	30.7	23	15.8	18.5	26.5	23.0	14.1	25.4	21.5	22.6	24.0	24.7	21.1	22.4	23.5
CFS	15.9	0	0	0	10.1	14.4	0	0	0	9.4	22.8	0.0	0.0	0.0	16.0	22.5	0.0	0.0	0.0	15.1
Defense and Security	11.8	1.1	0.2	0.5	7.7	10.7	2.4	0.3	1.1	7.4	10.1	6.9	0.3	2.6	7.9	10.1	4.2	0.2	1.6	7.3
Economic Services	6.8	57.7	24.9	36	17.4	5.7	48.4	30.2	37	16.5	5.2	45.4	16.9	26.7	11.6	5.0	36.7	23.5	28.2	12.7
Production Services	3.4	1.4	6.3	4.6	3.9	3.6	3.3	4.8	4.2	3.8	3.7	3.4	7.8	6.3	4.4	3.6	2.1	5.7	4.4	3.8
Social Services	39	23.9	53.3	43.4	40.6	34.9	22.9	48.9	39.1	36.4	35.2	30.3	49.5	42.9	37.5	34.7	32.3	49.5	43.4	37.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: MoFEA, IFMS data and author's computation

By Major Sectors¹

1.37 **More than 60 percent of the discretionary budget is allocated to six key sectors in the 2010/11 budget.** This is equivalent to a more than 10 percent increase in allocation for the six key sectors compared with actual spending in the same sectors in previous years.

1.38 Table 8 Approximately one third of this is allocated to the education sector, while the roads sector consumes **approximately** one quarter. The share of the overall budget (excluding interest rate) allocated to the water sector is the lowest among the six key sectors. The increased allocation to the six key sectors shows the government's commitment to achieve the MKUKUTA II strategic objectives by allocating a large share of budgetary resources. Despite increased allocations to these sectors, prioritization within the sectors needs to receive maximum attention to ensure the spending programs' effectiveness in achieving the MKUKUTA II and sector strategic objectives. Moreover, as already noted above, the identified financing gap in the budget is the main risk as the locally funded development programs and would be the first dropped to close the gap in the event of shortfalls in planned resources.

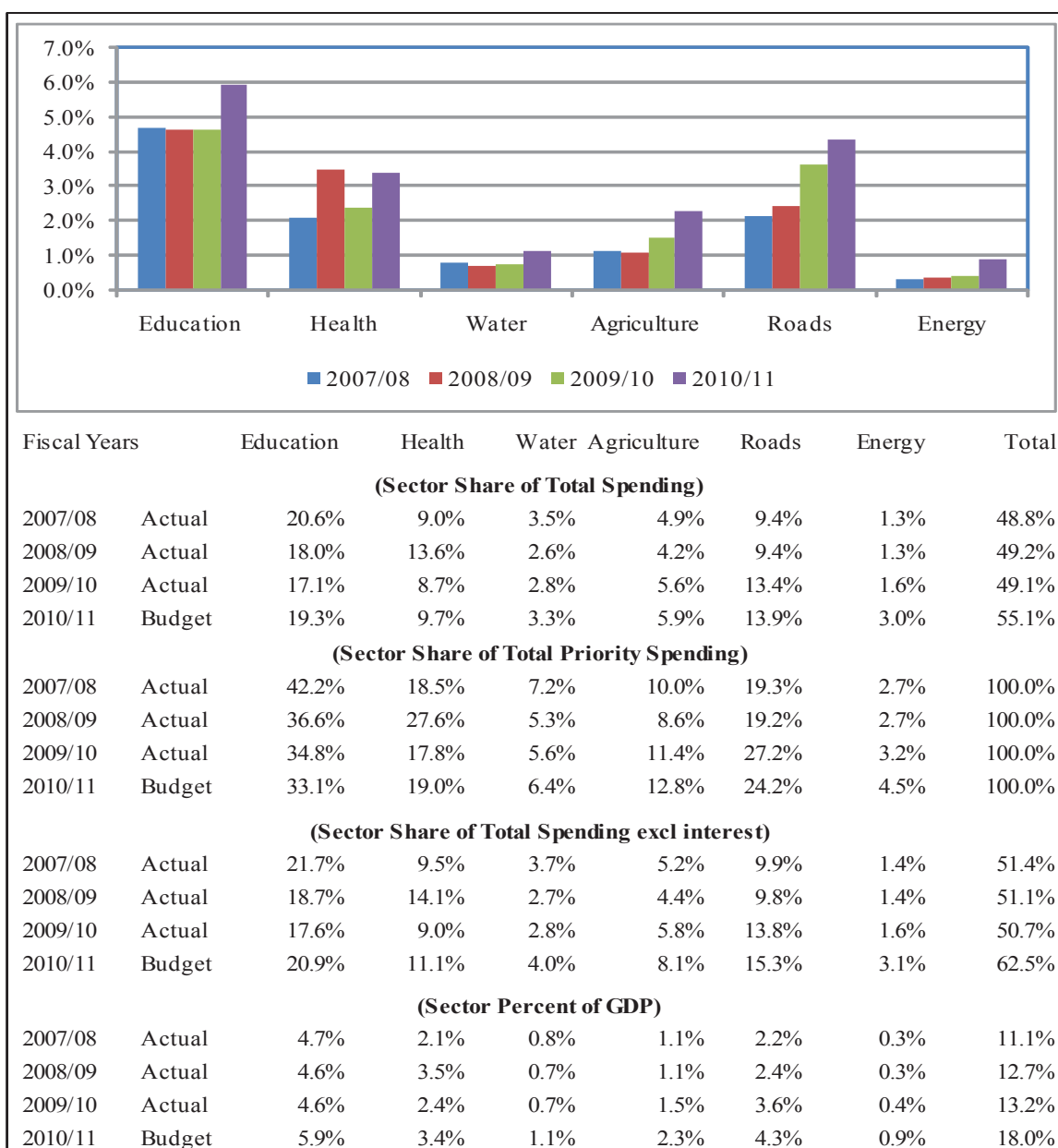
1.39 **Allocations to priority sectors continue to increase, consistent with increased allocation to MKUKUTA cluster strategies.** Six priority sectors consume approximately 62 percent of the 2010/11 budget (excluding interest rate), equivalent to 17 percent of GDP. This is equivalent to an estimated 2 percent increase in share for these sectors in 2010/11 compared with 2009/10. The main drivers of increased allocations to priority sectors are health and roads, which saw significant increases in the 2010/11 budget. Other sectors (except education, which experienced a slight decline in its share of budgetary allocation) saw their share remaining stable in 2010/11. The energy sector share the overall budget also declined, while budgetary allocations for the energy sector remained stable as a percentage of GDP. Energy's decline in budget share and low execution rate suggest that actual spending in the sector will continue to be low. This situation raises serious doubts about whether the government will be able to meet the MKUKUTA II strategic objective of increasing the accessibility and reliability of electricity, especially in rural areas.

¹ See annex for the exact definition of major sectors.

1.40 **The education, health, and road sectors continue to top the six priority sectors.** These three sectors consume more than 70 percent of the budget allocated for priority sectors in 2010/11. This is consistent with the government intention of providing social services (such as education and health) to the majority of Tanzanians and providing economic infrastructure (such as roads and electricity) to spur economic growth. MKUKUTA II puts great emphasis on economic growth and provision of key social services to reduce poverty. Despite increased attention to these key sectors, the main challenges would be protecting the sector from budget cuts in case of failure to close the resource gap as well as increased execution of development budgets, especially for heavy capital spending programs (infrastructure sectors).

1.41 **There are some significant weaknesses in alignment between sectors' budget allocations and strategic priorities in 2010/11.** For instance, in the agriculture sector, the current composition of budgeted public spending is not well aligned with the evolving sector priorities. The MKUKUTA II prioritizes as follows: (1) supporting physical infrastructure; (2) water and irrigation infrastructure; (3) financial and extension services; (4) knowledge and information; (5) value addition activities (crop production, livestock, fish processing, and mechanization); and (6) trade and export development services. Comparing this list with the functional composition of planned expenditures in the 2010/11 budget clearly shows that the planned expenditure is biased toward inputs and, recently, rural finance; few resources go to rural infrastructure, value addition, research, and extension. Irrigation expenditure has recently increased but remains insufficient to fill the gap in demand. Rural roads, which are critical for increased agriculture production and productivity, remain significantly underfunded. Moreover, the analysis shows that large share agricultural sector expenditures goes into current spending, not into capital expenditure, which is critical for creating preconditions for long-term growth.

Table 8: Budget and Actual Spending Between Major Sectors



Source: MoFEA, IFMS data and author's computation

1.42 **In health, the sector budget is partially aligned with the Health Sector Strategy (HSSP III).** The budgeted per capita spending for health increases in 2010/11 compared with 2009/10, but it is financed largely through aid and mostly on ephemeral Global Fund resources. Capital spending to improve and expand the network is another HSSP III priority that appears to be met with financing in the 2010/11 budget. The Malaria Control Programme is another HSSP III priority and a big push is funded in the 2010/11 budget. However, the 2010/11 health sector budget is weakly aligned with the HSSP III, especially in terms of declining real resources for district health staffing and lack of improvement in the relative resourcing of underserved districts. Across all programs, the goods and services category of spending may be vulnerable to

in-year expenditure cuts in 2010/11, as there is a significant financing gap in the budget due to an expected shortfall in revenue mobilization. While the budgeted funding for goods and services already does not keep up with inflation in the health sector, further cuts on these lines might be damaging. It is important that the government protects spending on essential drugs and maternal and child health care during expenditure cuts.

1.43 The 2010/11 education sector budget is broadly aligned with the Education Sector Development Program (ESDP) and the MKUKUTA II strategic objectives. There is an increase in overall resources allocated for education in the 2010/11 budget. Increased sector resources make space for increased funding for secondary and higher education, which are also priorities in the education sector strategy and the MKUKUTA II. Containment of the wage bill at reasonable levels means non-salary funding increases sharply outside primary education, which could be what is needed to extend the network and invest in quality of education. However, there is stagnation in funding for teacher education in addition to a real and per capita reduction in resources allocated for primary education.

1.44 The transport sector 2010/11 budget analysis led to the conclusion that it is weakly aligned with the sector strategy. The Transport Strategic Investment Plan (TSIP) suffers from two main weaknesses: unrealistic budget expectations, which generate a significant financial gap, and weak prioritization. It is essential to establish the link to and integration with the MTEF and MKUKUTA II priorities and align the financial resources accordingly. Growth expectations and the transport support they will require should be re-thought to bring sector budget forecast closer to reality and ensure that they are better reflected in Transport Strategic Investment Plan. The Local Government Transport Programme (LGTP) requires full and sustainable funding for the transport sector budget to be aligned with the MKUKUTA II strategic objectives and the TSIP priorities. Funding allocated to the railways network is minimal, and a strategy for the rehabilitation and extension for the network is not yet clearly defined. Road maintenance needs more funding and better prioritization; to meet objectives in this area, the government will need to devise new ways to increase funding for roads maintenance beyond the fuel levy collected by the Road Fund Board.

1.45 Improving prioritization and budget discipline in the transport sector remains a key priority. The TANROADS practice of over-committing for roads construction projects is having an impact on budget sustainability. TANROADS continues contracting above the approved budget, as the fund management team fails to maintain control of implementing the TSIP and fully delegates to the government responsibility for ensuring sufficient funding. This practice has resulted in an approximate 20 percent financing gap for ongoing projects. Further enhanced efforts to strengthen domestic procurement, and especially to improve oversight of procurement, could be a way to solve the problem.

1.46 A substantial share of the water sector budget in 2010/11 is allocated for provision of water and sanitation services in urban, peri-urban, and rural areas, consistent with sector priority objectives. Analysis of the water sector budget shows that the budget allocation for the sector is slowly increasing over time, replacing the stop-and-go characteristic of previous years. This positive development is expected to improve implementation of water sector investments, which are usually characterized by long-term investments that require many

years to implement. Despite increased allocations to the water sector, development spending favors urban areas. Moreover, budget execution for the water sector is rather weak, with significant under spending of the development budget. The overall under spending is due partly to delays in the release of foreign development funds, which fund almost all investments in the sector. This issue requires solutions that include (i) increased contribution of local funds in the sector's development budget; (ii) improved planning and procurement in water agencies so that disbursement of foreign funds can take place without delays; and (iii) improved and timely reporting and monitoring of actual spending and outcomes data.

1.47 **The 2010/11 energy sector budget and sector priority objectives are weakly aligned.** The sector's budget allocation in 2010/11 declines from previous years despite low accessibility and unreliability of electricity in the country. Moreover, a record of significantly low execution of the development budget suggests actual spending in the sector is much lower than the budget would indicate. The budget does not seem to function as a planning instrument for implementation of strategic priorities, since the actual development spending is significantly lower than approved development spending. For instance, in the past three years, execution of Ministry of Energy and Minerals (MoEM) development budgets has not gone beyond 30 percent, despite the sector and MKUKUTA II objectives of making electricity more accessible and reliable in Tanzania. The problem is one of planning rather than execution: planning weaknesses are revealed in the translation of strategy and master plans into implementation actions to which the budget funds should be assigned. Strong efforts are needed to make the planning side of the budget more relevant.

By Economic Nature

1.48 **There is a significant increase in allocation for development spending in the 2010/11 budget.** This represents a shift toward prioritizing spending on development programs and projects from recurrent spending. While allocation for recurrent spending declines from 69.5 percent of total budget in 2009/10 to 65 percent in 2010/11, allocations for development spending increase from 30.5 percent in 2009/10 to 35.5 percent in 2010/11 (Table 9). Allocations for development spending are equivalent to approximately 11 percent of GDP in 2010/11 compared with budget allocations of 9.1 percent and actual spending of 8.6 percent of GDP in 2009/10. This increase is due to increased development spending in key growth enhancing sectors such as roads, health, education, and agriculture. Both local and foreign components of the development budget have increased in 2010/11 compared with 2009/10, but the locally funded component increases faster than the foreign funded component. The first challenge will be to realize the resources required to implement planned projects and programs, given the already identified financing gap in the budget. The second important challenge is the low capacity in key MDAs and LGAs to implement all these development programs and projects.

1.49 **Recurrent spending remains a large share of the budget, although it shows some decline in 2010/11.** Planned recurrent spending is approximately 65 percent of the overall budget, equivalent to 20 percent of GDP, down from actual spending of 68 percent of the overall 2009/10 budget, equivalent to 18.3 percent of GDP. Wage bill and goods and services allocations consume more than 65 percent of the overall recurrent budget in 2010/11. A planned increase in basic salaries of civil servants, together with an increase in personnel emoluments of public enterprises, are the main reasons for keeping the share of wage bill high in the recurrent budget.

While the overall basic salaries increase by 26 percent, personnel emoluments (PE) of public enterprises increase by 36 percent. Allocations for other charges, which include spending on goods and services, and allowances, also slightly increase in the 2010/11 budget. Nonetheless, share of allowances in the 2010/11 budget declines. The decline in the share of allowances is mainly due to a decline in the share of duty facilitating allowances, especially in MDAs.

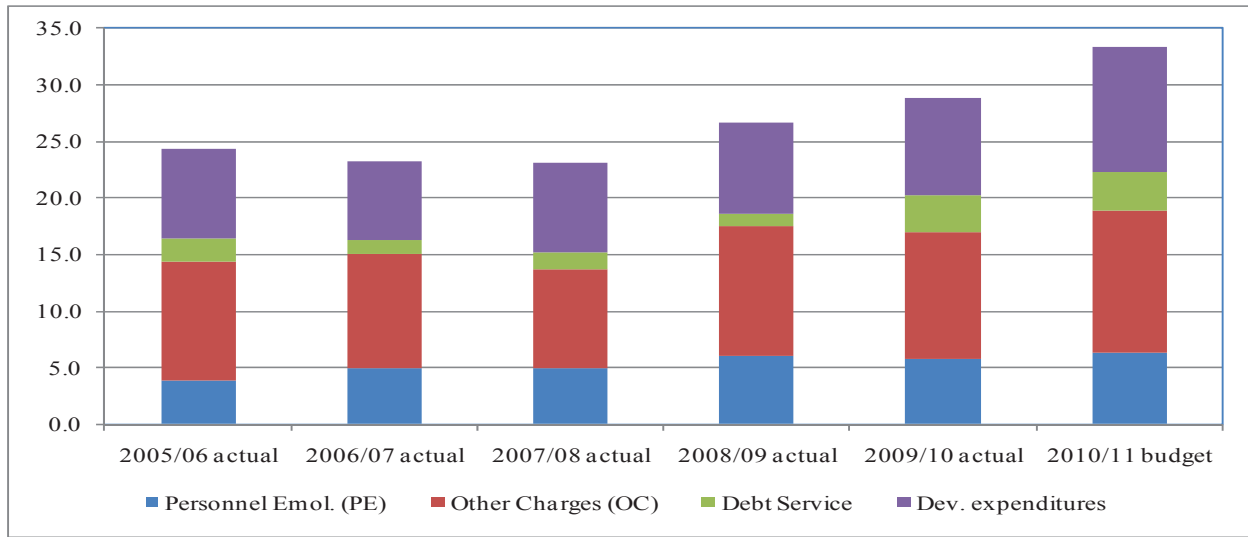
Table 9: Decomposition of the Budget

	2006/07		2007/08		2008/09		2009/10		2010/11
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Prel. Actual	Budget
	in percentage of total expenditure								
Recurrent expenditure	63.8%	70.3%	63.7%	65.6%	65.5%	68.7%	69.5%	68.1%	64.5%
Development expenditure	36.2%	29.7%	36.3%	34.4%	34.5%	31.3%	30.5%	31.9%	35.5%
Total expenditure	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	percentage change								
Recurrent expenditure	19.0%	9.0%	24.3%	8.3%	23.8%	37.8%	37.1%	18.8%	7.8%
Development expenditure	-24.0%	-1.5%	26.9%	35.4%	13.2%	17.6%	13.4%	22.6%	35.2%
Total expenditure			25.3%	16.4%	19.9%	30.8%	28.9%	20.0%	16.2%
	in percentage of GDP								
Recurrent expenditure	18.1%	16.1%	17.2%	14.9%	17.6%	17.7%	20.7%	18.3%	20.0%
Development expenditure	10.3%	6.9%	9.8%	7.9%	9.3%	8.0%	9.1%	8.6%	11.0%
Total expenditure	28.3%	23.0%	27.0%	22.8%	26.9%	25.7%	29.8%	26.9%	31.0%

Source: MoFEA, Budget Digest 2010/11.

1.50 Allocation for debt service increases slightly in the 2010/11 budget, driven mainly by increased allocations for interest payment on domestic debt. Despite increased allocations for debt service, debt indicators show that Tanzania's debt position is sustainable. The government is planning to finance its 2010/11 budget (close the financing gap), especially spending on infrastructure investment, through additional non-concessional borrowing. Although this strategy does not jeopardize its debt sustainability position, Tanzania would be faced with some additional fiscal pressure on the budget in future, in terms of increased allocations for debt service. This also assumes that additional non-concessional borrowing will be on reasonable terms. It is therefore important that all infrastructure investments to be financed by additional resources from non-concessional borrowing spark much needed additional economic growth that is expected to generate some additional revenue for the government.

Figure 16: Decomposition of the Budget



Source: MoFEA, Budget Digest 2010/11.

Table 10: Budget Decomposition by Consumption and Capital Spending

	2007/08			2008/09			2009/10			2010/11		
	Rec	Dev	Total	Rec	Dev	Total	Rec	Dev	Total	Rec	Dev	Total
Current	96.3	37.0	74.8	92.8	41.8	75.2	98.9	55.1	85.0	98.7	49.8	81.5
Wages and salaries	45.1	4.0	30.3	50.4	4.6	34.0	47.5	4.0	32.5	48.0	2.5	31.9
o/w Pers. Emol. (PE)	38.0	0.3	24.4	43.6	1.1	28.3	35.2	0.4	25.5			
o/w Allowances	7.1	3.7	5.9	6.8	3.5	5.7	6.5	3.6	5.5	6.9	2.0	5.2
Good and Services	32.2	27.0	30.3	30.4	22.8	27.8	33.2	45.7	38.0	36.4	32.6	35.1
Maintenance	7.0	3.0	5.5	5.6	4.5	5.2	5.3	2.6	5.1	3.7	3.5	3.6
o/w Road maintenance	..	..	..	..	..	..	4.4	0.3	3.2	3.9	0.3	2.6
Current Transfer	4.1	3.1	3.7	1.5	10.0	4.5	4.9	2.8	4.0	5.0	11.3	7.2
Interests	7.9	0.0	5.0	5.7	0.0	3.7	8.0	0.0	5.5	5.6	0.0	3.6
Capital	3.7	63.0	25.2	7.2	58.2	24.8	1.1	44.9	15.0	1.3	50.2	18.5
Infrastructure	2.2	35.3	14.2	3.7	36.4	15.0	0.2	32.5	10.4	0.2	41.8	14.9
Construction	2.1	13.1	6.1	3.1	19.9	8.9	0.0	11.1	3.9	0.0	12.8	4.5
Rehabilitation	0.1	22.2	8.1	0.6	16.4	6.1	0.1	21.4	6.4	0.1	20.9	7.4
Equipment	1.2	15.2	6.2	1.8	7.2	3.7	0.8	5.2	2.2	0.7	2.1	1.2
Other Capital	0.1	12.4	4.6	0.2	14.3	5.0	0.2	7.2	2.4	0.4	6.4	2.5
o/w Feasib. Studies	0.1	12.3	4.5	0.1	13.8	4.8	0.1	6.4	2.1	0.0	4.0	1.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: MoFEA, IFMS data and author's computation.

1.51 **Increased budgetary allocation for development spending finances increased capital investment spending.** In 2010/11, approximately 50 percent of the development budget finances capital spending, which is 5 percent higher than in 2009/10. Capital investment spending increases because of increased allocation for infrastructure rehabilitation and construction in the roads, agriculture, water, and energy sectors. Capital investment spending increases to 18.5 percent of the total budget in 2010/11, up from to 15 percent in 2009/10 (Table 10 and

1.52 Figure 17. The increased capital investment is consistent with the government policy of boosting economic growth as emphasized in the MKUKUTA II. However, timely and complete release of allocated funds is critical to ensure that planned investment programs and projects are fully implemented and objectives of boosting economic growth and reducing poverty in the country are achieved. In addition, it is important to ensure that there is enough capacity for executing large capital investment programs and projects in implementing agencies (MDAs and LGAs), because most often this is the major implementation challenge.

1.53 **Allocations for equipment decline in the 2010/11 budget, mainly driven by a decline in allocations for purchase of motor vehicles—especially four wheel drive (FWD) and electricity generators.** While the decline in allocations for the purchase of FWD vehicles is consistent with the government policy of reducing spending on such cars, the decline in allocations for the purchase of electricity generators could be due to completion of some key projects in the energy sector. The decline in allocations for power generation related equipment is an issue of concern given the unreliability and limited accessibility of electricity in Tanzania, especially in rural areas. Despite the overall decline in allocations for equipment, allocations for medical and scientific instruments, which are critical in hospitals, remained stable. The government will need to consider how to reduce further spending of motor vehicles (especially FWD) to create more space for critical infrastructure spending, such as roads, power generators, and irrigation.

Figure 17: Budget Decomposition by Economic Nature of Spending

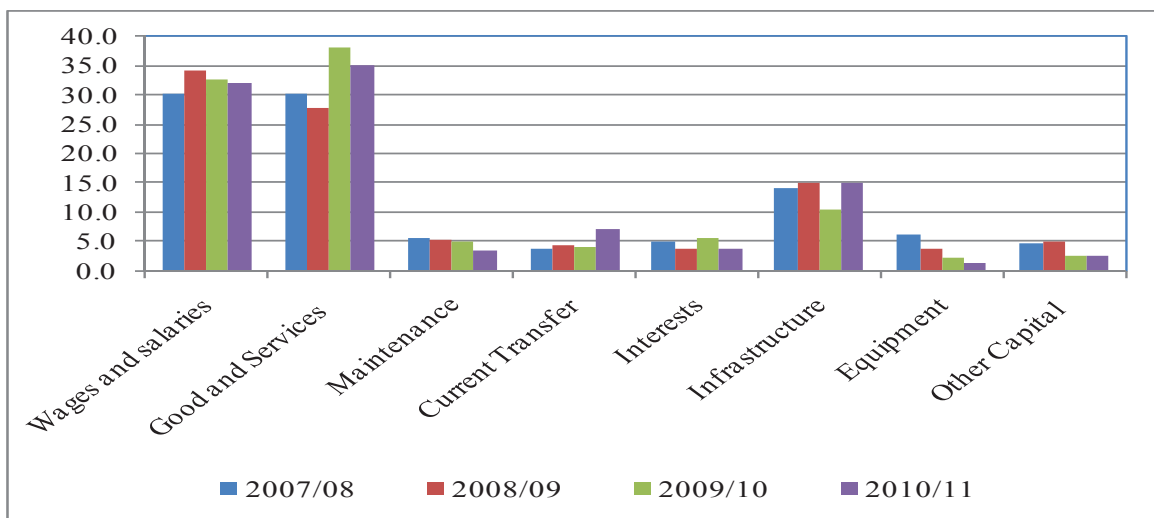
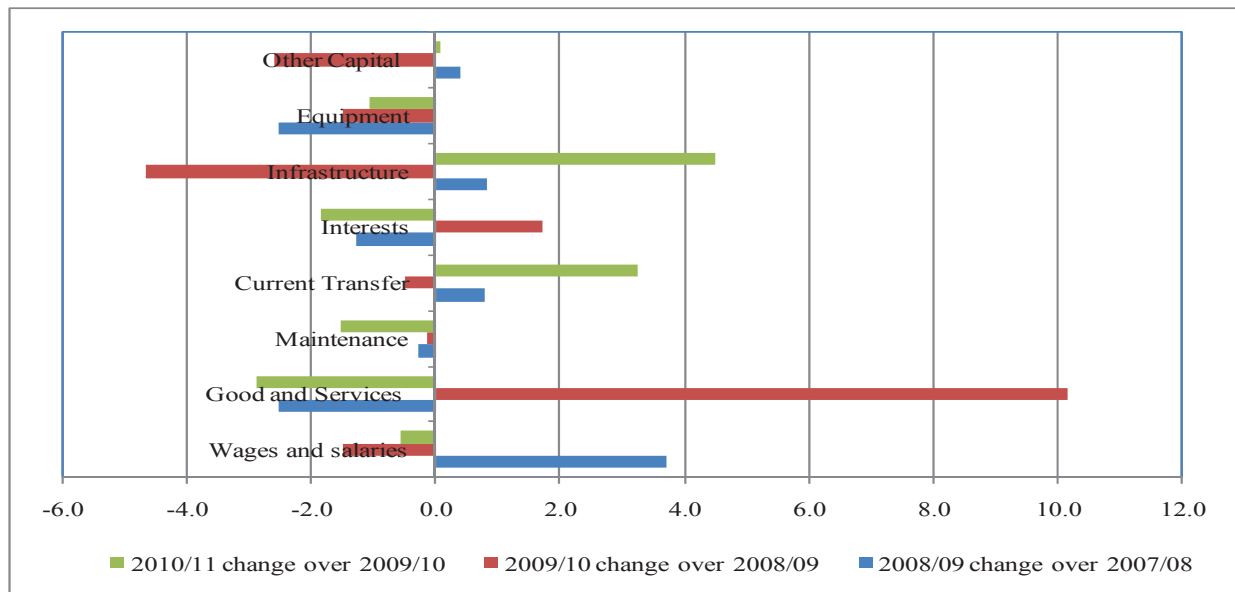


Figure 18: Change in Budget Shares by Economic Nature of Spending



1.54 **The share of wage bill in the 2010/11 budget declines slightly but remains high as a percentage of GDP.** The wage bill is about 32 percent of the total budget in 2010/11, down from 32.5 in 2009/10. The wage bill's decline in budget share is driven mainly by the decline in share of civil service benefits (including pension and social contributions) and allowances. The decline in the share of allowances in the wage bill is due mainly to the reduction in allocations for duty facilitating allowances in MDAs. Despite wage bill's decline in budget share, it remains high, at about 9.9 percent of GDP. The government will need to continue measures to reduce the wage bill (as percentage of GDP) to create some fiscal space for development spending, which is critical for achieving the MKUKUTA II strategic objectives of investing more in infrastructure to boost economic growth for sustained poverty reduction.

1.55 **Surprisingly, the share of budget allocations for maintenance declines in the 2010/11 budget.** The decline in the share of allocations for maintenance in the budget comes in midst of backlog of infrastructure maintenance in the roads and social sectors' infrastructure. In the recent past, Tanzania has made huge investments in economic and social infrastructure that will need to be maintained to save the country from allocating huge amounts money for rehabilitation in the future. Limited budget allocations translate into delays in infrastructure maintenance, which in turn results in huge future costs related to rehabilitation and even new construction. As reliable and accessible electricity is essential if Tanzania hopes to achieve the MKUKUTA II strategic objectives of growth and reduction of poverty, it is critical that the government allocate adequate budget for maintaining infrastructure in energy sector, both for production and transmission of electricity.

1.56 **The share of allocations for goods and services in the 2010/11 budget declines, following a huge increase in 2009/10. Despite the decline, allocations for goods and services remain very high in the budget.** Overall budget allocations for goods and services are down to 35 percent in 2010/11, compared with 38 percent in 2009/10. The share of budget allocations for goods and services declines due to restrictions on spending related to travel tickets, training,

workshops, seminars, and conference facilities. Allocations for key goods and services such as capitation grants in education, fertilizers in agriculture, and drugs and medicines in health remain unaffected by the decline, as do capacity charges in energy remains unaffected by the decline. The government is planning to cut spending on goods and services to close the financing gap in the 2010/11 budget. The government will need move cautiously in cutting spending on goods and services to protect key areas, such as capitation grants, medical supplies and essential drugs, and fertilizers. Moreover, the government will need to consider how to cut further allocations for goods and services to create fiscal space for infrastructure investment spending.

Implementation of D by D Policy

1.57 **Approximately 23 percent of the overall budget is allocated to LGAs spending programs in 2010/11.** The overall share of the total budget allocated to LGAs spending programs in 2010/11 is approximately 2 percent higher than actual spending in 2009/10 (Table 11). Increases are planned for both recurrent and development spending in the LGAs in 2010/11. On one hand, increased recurrent spending is driven by planned increases in hiring of teachers in secondary schools. On the other hand, increased allocations for development spending are driven largely by increased allocation of local funds for construction of district offices and houses as well as increased allocations of foreign funds through the Local Government Capital Development Grant (LGDG) basket, which funds different sectors, including education and health. There is also a notable increase in allocations for rural roads in LGAs.

1.58 **Despite the increased budget allocation to LGAs, quality and efficiency of spending programs needs further attention.** The notable increase in the share of allowances in the 2010/11 budgets of some LGAs makes them among the highest allowance receiving votes. For instance, in the 2010/11 budget, Dar es Salaam, Mwanza, and Shinyanga LGAs are (combined) among the 17 highest allowance receiving votes. There is also a need to improve capacity for financial management and reporting in addition to LGAs' capacity to plan, prepare and execute development projects and programs. The increased funding to LGAs in the 2010/11 budget is subject to the measures being taken by the government to fill the budget financing gap, since some of the measures include cutting expenditures on goods and services and securing non-concessional external borrowing to finance infrastructure investments.

Table 11: Decomposition of Budget and Actual Spending in LGAs (shares)

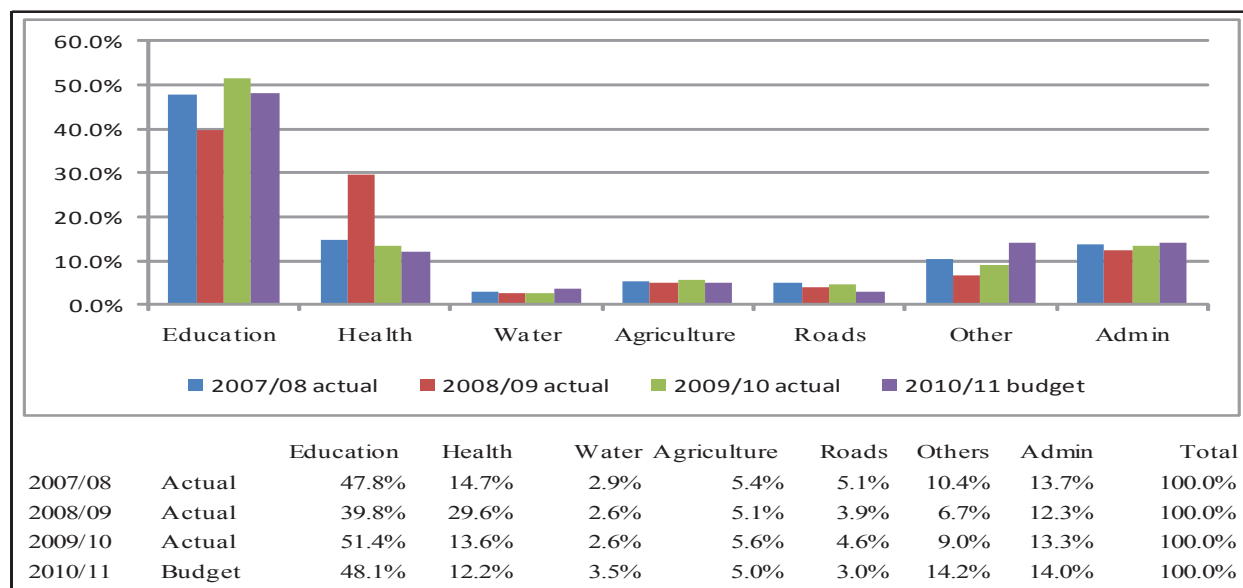
	2007/08	2008/09	2009/10	2010/11	2008/09 Change	2009/10 Change	2010/11 Change
	Actual	Actual	Actual	Budget	over 2007/08	over 2008/09	over 2009/10
Recurrent	22.6%	26.9%	22.0%	25.2%	4.3%	-4.9%	3.2%
Development	14.2%	15.4%	16.9%	18.5%	1.2%	1.6%	1.5%
Total	19.7%	23.4%	20.5%	22.9%	3.7%	-2.9%	2.3%

Source: MoFEA, IFMS data and author's computation.

1.59 **Allocation for education and health spending programs and projects remained the main priorities in LGA budgets.** Provision of basic education (primary and secondary) and primary health services are core activities of the LGAs, as indicated by the large share of

resources allocated to these sectors in their 2010/11 budgets (Figure 19). The slight decline in shares of education and health in the LGAs 2010/11 budget compared with actual spending in 2009/10 is driven by inclusion of the LGDG that funds many sectors, including education and health, under another spending category. The allocations for other spending categories, which appear to have increased in 2010/11, are driven primarily by increased allocations to the development budget through the LGDG and local funds that are not yet factored into appropriate sectors allocation. The share of resources allocated to education, health, water, agriculture, and roads may further increase as funds allocated for LGAs’ development budget through the LGDG are finally properly assigned to relevant sectors. Declining shares of budgetary allocations for water and roads in LGA raises some concern. For instance, the decline in the roads budget undermines the importance of accessible rural roads for increased production and productivity in agriculture, which is important for achieving the MKUKUTA II strategic objectives of economic growth and poverty reduction.

Figure 19: Budget and Actual Spending in LGAs by Sectors



1.60 Increased share allowance is a new feature in LGAs’ budget in 2010/11. Although overall share of allowances in the total budget declines, in LGAs’ share of allowances has increased by approximately 150 percent in the 2010/11 budget compared with 2009/10. The increased share of allowances in LGAs’ budget is driven by fact that salaries of teachers who are not yet included in payroll are paid as a training allowance. The government will need to continue its effort in improving equity in per capita resource allocation among LGAs to ensure equity in the provision of basic social services such health and education.

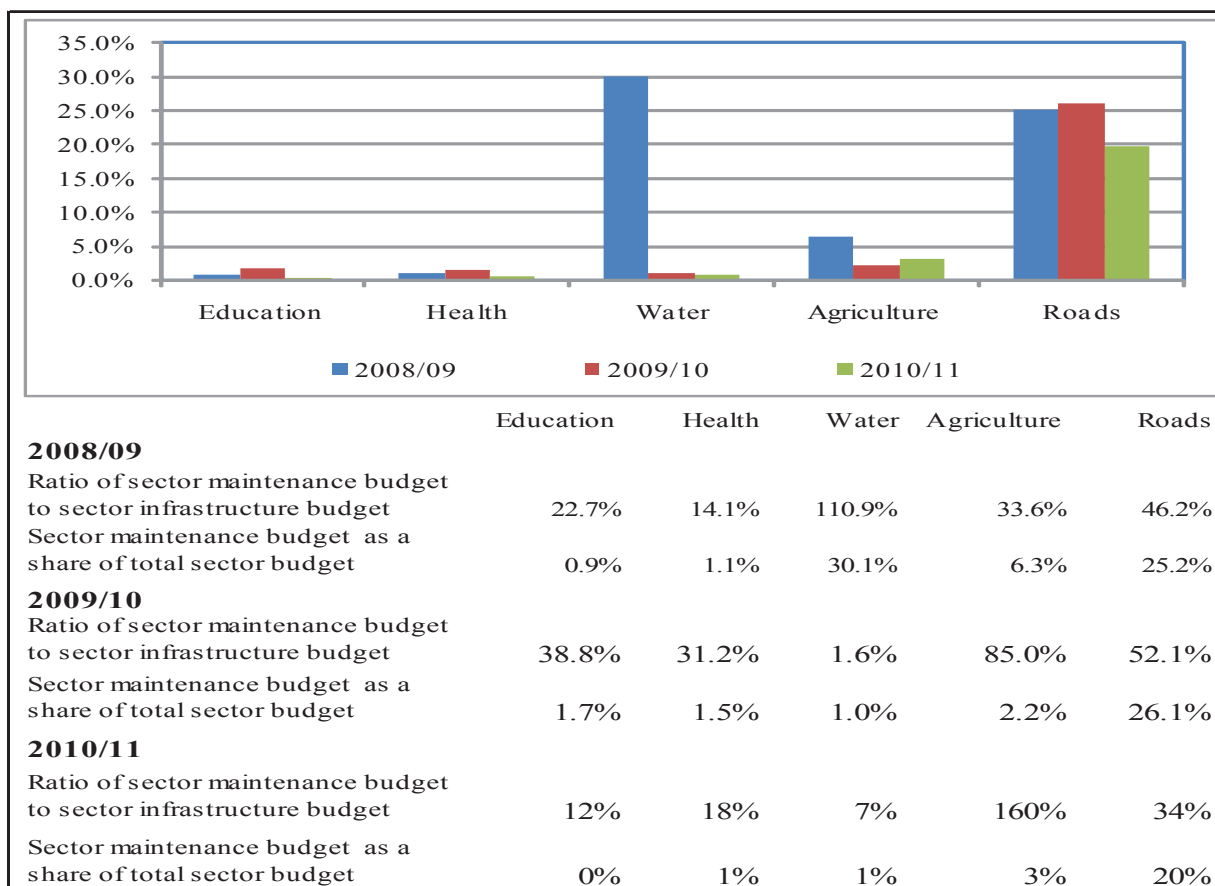
Infrastructure Maintenance Policy

1.61 Again, the 2010/11 pays even less attention to infrastructure maintenance. Other than in the agriculture sector, budgetary allocations for infrastructure maintenance continued to decline in 2010/11 (Figure 20). This is despite the recent huge increase in public investment in both social and economic infrastructure. Moreover, some backlogs in social and economic

infrastructure maintenance (education, health, water, roads, and energy) warrant more allocation of budgetary resources. Despite the unreliability and low accessibility of electricity and rural roads, allocations for infrastructure maintenance in energy and road sectors are low in the 2010/11 budget.

1.62 **Decline in share of budgetary allocations for roads maintenance is of particular concern.** In real terms, budgetary allocations for roads maintenance have remained constant from 2009/10 to 2010/11, but they have declined as a share of sector budget over the same period. This decline comes at a time when other modes of transport in the country, like railways, are critically unreliable and in seriously bad shape. This casts more doubt on whether the backlog in road maintenance, especially in rural roads, will be cleared in the near future. The other issue is the extent to which the new roads being constructed and rehabilitated/upgraded will face the same situation.

Figure 20: Budget Allocations for Infrastructure Maintenance



1.63 **In social sectors, education, and health, the 2010/11 budget has continued to pay no attention to infrastructure maintenance.** Between zero and 1 percent is allocated for infrastructure maintenance in the education and health sectors. This is despite the existence of a huge backlog in maintenance of social infrastructure, such as schools and hospitals, in addition to the recent massive construction of infrastructure in the two sectors. It is important that the government provide guidance to sectors and LGAs on how they should prioritize infrastructure

maintenance in budgeting before they move ahead and budget for construction of new infrastructure.

BUDGET AND ACTUAL SPENDING CONSISTENCY – 2009/10

Recurrent Budget

1.64 **Actual recurrent spending deviated significantly from the approved budget in 2009/10.** Overall, actual recurrent spending deviated from the approved budget by approximately 12 percent (Table 12). The level of deviation increases as the level of disaggregation increases. For example, across votes, recurrent budget deviations range from 61 percent to +139 percent. The main drivers of deviations are reallocation across votes as well as reallocation from contingency resources. In 2009/10, significant budgetary resources were set aside (contingency) for implementing rescue package measures that were concluded just after the budget had been approved. As a result, money had to be reallocated from vote 21 (contingency item) to other ministries to implement some of the rescue package measures falling under relevant votes (especially MDAs). Also, a large share of funds budgeted for recurrent spending in other MDAs was reallocated to the MoID to cover for shortfalls in development spending on roads. The budget did not allocate enough funds for roads construction contracts signed by TANROADS during June-December 2009; over the resulting over-commitment required additional funds that were raised through reallocation from recurrent budget of other MDAs to the MoID development budget.

Table 12: Recurrent Budget Deviation

	2004/05	2005/06	2006/07	2007/08	2008/09	2008/10
Total Recurrent	-9.2%	-5.0%	2.0%	-13.1%	-6.5%	-11.6%
o/w MDAs	-12.4%	-7.0%	4.8%	-15.5%	-8.1%	-12.8%
o/w Regions+LGAs	4.9%	2.8%	-6.1%	-5.0%	-0.3%	-8.0%

Source: MoFEA, Expenditure Flash Reports

1.65 **Reallocations from votes and contingency resources were the main causes of deviations.** Approximately 15 percent of the budget was reallocated from one vote to another, and contingency accounted for half of the amount. Recurrent budget experienced lower reallocations than development budget. Reallocations in the development budget were mainly from the locally funded component of the development budget. In addition, greater than expected disbursement of general budget support grants cased the overall resource envelope to expand by approximately 1 percent of the total budget, which provided more room for further reallocation. However, the data provided by reallocation warrants do not provide enough certainty and accuracy in assessing fund movement. For instance, while the MoID actual spending exceeds the originally approved budget by TShs 73 billion, reallocation warrants show net reallocation to the Ministry of Infrastructure Development of only TShs 15 billion. This suggests that either a large share of overspending in the MoID was covered by resources that were not included in the budget, or reallocation warrants data are inaccurate, or arrears built up in the MoID.

1.66 The major over-spenders in 2009/10 are the roads and agriculture sectors, the Electoral Commission, and the President’s Office (Table 13). Top under-spenders are Treasury, Public

Debt, General Services, and the Ministry of Energy and Minerals. The under-spenders are also major sources of funds that were reallocated to over-spenders. With the exception of Treasury (contingency item), huge under-spending in other MDAs points to some problems with absorption capacity due either to poor planning or to weak capacity in implementation of programs and projects.

Table 13: Recurrent budget over- and under- spenders

2008/09

Under-spenders			Over-spenders		
Vote	MDA	Amount (Bill TSh.)	Vote	MDA	Amount (Bill TSh.)
21	Treasury	(457.8)	46	Min of Education and Vocational Training	76.6
56	PMO, Regional Admin. and Local Govt.	(16.6)	30	President's Office and The Cabinet Secretariat	22.4
43	Min of Agriculture, Food Security and Coop.	(5.5)	38	Defense	21.1
69	Ministry of Natural Resources and Tourism	(4.5)	28	Ministry of Home Affairs - Police Force	11.7
40	Judiciary	(3.1)	34	Min of Foreign Affairs & International Coop.	10.1
98	Ministry of Infrastructure Development	(2.5)	22	Public Debt and General Services	6.3
66	President Office Planning Commission	(2.2)	23	Accountant General's Department	6.1
41	Ministry of Justice and Constitutional Affairs	(1.8)	52	Ministry of Health and Social Welfare	6.0
97	Min of East African Cooperation	(1.3)	32	President's Office-Public Service Mgt.	4.9
99	Ministry of Livestock Development	(1.1)	39	The National Service	4.2
48	Ministry of Lands and Human Settlements Dev.	(1.1)	44	Ministry of Industries, Trade and marketing	3.3

2009/10

Under-spenders			Over-spenders		
Vote	MDA	Amount (Bill TSh.)	Vote	MDA	Amount (Bill TSh.)
21	Treasury	(369.1)	43	Min of Agriculture, Food Security and Coop.	29.6
22	Public Debt and General Services	(220.2)	50	Ministry of Finance	26.8
29	Ministry of Home Affairs - Prison Services	(25.3)	58	Ministry of Energy and Minerals	21.5
28	Ministry of Home Affairs - Police Force	(21.3)	61	Electoral Commission	16.4
46	Min of Education and Vocational Training	(17.7)	30	President's Office and The Cabinet Secretariat	6.2
38	Defense	(13.2)	37	Prime Minister's Office	5.2
52	Ministry of Health and Social Welfare	(12.2)	40	Judiciary	3.8
69	Ministry of Natural Resources and Tourism	(9.0)	39	National Service	3.3
99	Min of Livestock Dev. and Fisheries	(7.7)	19	District and Primary Courts	1.1
18	High Court	(7.4)	34	Min of Foreign Affairs & International Coop.	1.1
23	Accountant General's Department	(5.5)	97	Ministry of East African Cooperation	0.7

Source: MoF, Expenditure Flash Reports.

1.67 **The MDAs' recurrent budget deviation index² is 12.9 percent in 2009/10.** After adjusting for rescue package measures driven reallocations, MDAs' recurrent deviation index is 12.9 percent in 2009/10, down slightly from 13.1 percent in 2008/09 (Table 14). Approximately 40 percent of the contingency, also equivalent to about 2 percent of total budget, was set aside for implementing rescue package measures associated with the global financial crisis. The rescue package was finalized at end June 2009, when the budget was already approved, so MDAs and other institutions that were to implement the rescue package measures were not known during

² MDAs' recurrent budget deviation index is calculated as the sum of absolute differences between approved recurrent budget and actual recurrent expenditures of MDAs at vote level expressed as a percentage of total approved MDAs' recurrent budget.

the preparation stage. Therefore, the budget allocated for that purpose was in the contingency item in Treasury (vote 21). Rescue package related reallocations involved movement of funds from Treasury (contingency item) to the Ministry of Agriculture and Food Security, Ministry of Finance and Economic Affairs, and Ministry of Industries and Trade. The funds were spent on the purchase of additional maize for the NFSA, providing funds for “Agriculture Window” in Tanzania Investment Bank (TIB) earmarked for providing credits to farmers, for compensating cotton farmers due to the fall in the price of cotton in the world.

Table 14: MDAs Recurrent Budget Deviation Index

Fiscal Year	Comments	Index
2003/04	No comments	23.9
2003/04	2003/04 (excl. ‘force majeure’ items, namely additional spending in votes 43/agriculture and 58/energy)	22.6
2004/05	No comments	20.4
2005/06	No comments	17.1
2006/07	No comments	16
2007/08	No comments	16.7
2008/09	With no adjustments	18.3
2008/09	(excl. ‘force majeure’ items, namely reallocations from contingency for the 2007/08 salary arrears following Presidential decision to raise salaries starting from January 2008)	13.1
2009/10	With no adjustments	17.4
2009/10	(excl. ‘force majeure’ items, namely measures implemented under the rescue package for which implementing agencies and budgets were known after the 2009/10 budget was approved)	12.9

Source: MoFEA and author’s calculation.

Development Budget

Completeness and Timeliness of Releases

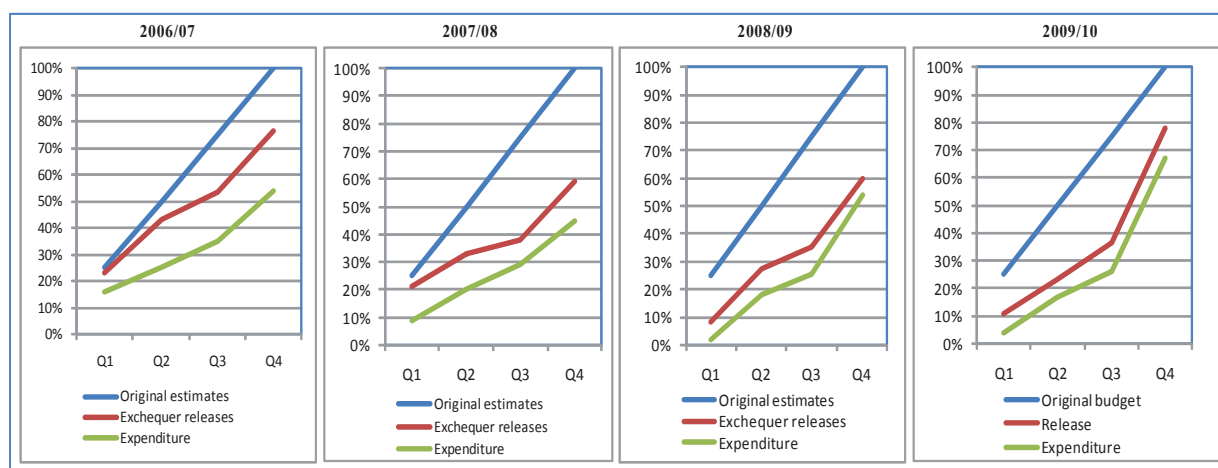
1.68 **Overall completeness of release of development funds in 2009/10 improved significantly.** More than 75 percent of MDAs’ budgeted development funds were released (Figure 21). However, completeness of release of development funds differed across MDAs: some received more than 100 percent, while others received less than 40 percent of their budgeted funds. The improvement in completeness of releases was due mostly to significant improvement in the release of locally funded components of development budgets due to greater than expected disbursements of funds from general budget support donors.

1.69 **Delays in the release of development funds remained a major problem in 2009/10.** More than half of MDAs’ development funds were released in the last quarter of 2009/10 (Figure 21). Both foreign and local development funds were released with significant delays. The main reasons for delay in release of foreign development funds were slow implementation of projects and programs, delays in procurement, and delays in meeting disbursement conditions for donor funded projects and baskets. Disbursement of development funds from the treasury is triggered

by submission of cash flow plans at the beginning of fiscal years as well as submission of implementation reports every quarter before development funds are released. In addition, the MoFEA has an expenditure tracking unit that also needs to verify actual implementation of projects and programs before the release of development funds. All these requirements have proved to be a big challenge for MDAs and LGAs, especially timely preparation and submission to Treasury of the cash flow plans and implementation status reports. Hence, the government will need to consider the possibility of relaxing these conditions, especially during the first quarter of the fiscal year. Moreover, the government will need to continue to improve planning, budgeting, and procurement in all spending agencies to speed up project and programs implementation.

1.70 **There was a significant improvement in actual spending of development funds in 2009/10.** This significant improvement in spending by the MDAs was due to improved completeness of releases. Nonetheless, approximately 60 percent of MDAs’ development spending occurred in the last quarter of 2009/10 because most of the funds were released in that quarter. There is also a significant spending gap (low spending compared with release) caused by low absorption capacity due to delays in the release of the funds. As pointed out in the past, release and hurried spending in last month(s) of the financial year could lead to inefficiency and loss of quality in expenditures.

Figure 21: Trends in Release and Spending of Development Funds for MDAs



Source: MoF, IFMS Data, and author’s computation.

Source of Funding and Economic Nature of Spending

1.71 **Overall, development budget execution at the MDA level improved significantly in 2009/10.** There is an approximately 23 percent increase in the execution rate in 2009/10 compared with 2008/09. The improvement in the execution rate was driven largely by completeness in the release of development funds. Despite delays in realizing development funds, overall, MDAs were able to execute approximately 75 percent³ of their development

³ Execution rate in this case is measured using the IFMS itemized expenditure data generated at end September 2010, which has more coverage of actual spending (including direct to project funds). Using the expenditure flash

budgets (Table 15). However, execution differed significantly among MDAs. For example, while MoHSW and MoID executed more than 100 percent of their development budgets, MoEM executed less than 40 percent of its development budget. Significant improvement in the execution rate of a development budget suggests that many development programs and projects planned and budgeted for in 2009/10 was implemented, which is a clear sign of the government's intention to achieve MKUKUTA II strategic objectives.

1.72 The locally funded component of MDAs' development budget continued to perform better than the foreign funded component. While overall execution of MDAs' locally funded component was 116 percent in 2009/10, up from 64 percent in 2008/09, the overall execution rate of the foreign funded component was 52 percent in 2009/10, up from 44 percent in 2008/09 (Table 15). Completeness in release of local development funds was the main reason for good performance in the execution of the locally funded component. However, it is important to note that the share of local funds in MDAs' development budget was only 36 percent of the overall development budget. Therefore, it is important that the government increase the local fund share in the development budget, which is easy for MDAs to execute, to implement planned programs and projects and achieve MKUKUTA II strategic objectives. Moreover, more efforts are needed to increase the execution rate of the foreign component by improving the completeness and timeliness funds from donor projects and basket funds.

1.73 Budget execution for capital investment continues to trail behind current consumption, but with significant improvement in 2009/10. The larger share of capital spending in the development budget is associated with lower execution, while the larger share of current spending is associated with a higher execution rate. Overall and even in sectors, the larger the share of capital spending, the lower the execution rates (Table 15). This emphasizes the point that planning and physical implementation of large capital investment projects and programs requires much more capacity than large current spending projects and programs. Hence, it is important to improve key MDAs' capacity to plan, prepare, procure, and physically implement large capital investment projects and programs such as roads, energy, and water projects.

report data generated on July 15, 2010 would make it necessary to lower the execution rate due to limited coverage of direct to project funds.

Table 15: MDAs Development Execution Rates

2008/09							
Sector	Item	Shares of total			Execution rates		
		Foreign	Local	Total	Foreign	Local	Total
Overall	Current	35.5	25.4	61.0	49.1	56.2	52.1
	Capital	22.7	16.3	39.0	36.2	76.3	52.9
	Total	58.3	41.7	100.0	44.1	64.0	52.4
Agriculture	Current	51.3	8.5	59.8	56.3	145.4	69.0
	Capital	23.3	16.8	40.2	98.6	42.7	75.2
	Total	74.7	25.3	100.0	69.5	77.2	71.5
Education	Current	38.4	21.8	60.2	15.0	43.3	25.3
	Capital	11.4	28.3	39.8	145.2	136.6	139.0
	Total	49.9	50.1	100.0	44.9	96.0	70.5
Health	Current	85.7	4.7	90.4	81.5	69.8	80.9
	Capital	8.8	0.8	9.6	16.3	100.4	22.9
	Total	94.5	5.5	100.0	75.4	74.0	75.3
Energy	Current	29.5	19.8	49.3	4.0	9.3	6.1
	Capital	39.7	11.0	50.7	16.8	44.2	22.7
	Total	69.2	30.8	100.0	11.3	21.8	14.5
Roads	Current	7.4	38.8	46.1	23.9	75.1	67.0
	Capital	32.9	21.0	53.9	37.7	82.2	55.0
	Total	40.3	59.7	100.0	35.2	77.6	60.5
Water	Current	46.4	12.5	59.0	87.1	52.0	79.6
	Capital	19.9	21.1	41.0	60.5	122.7	92.5
	Total	66.3	33.7	100.0	79.1	96.4	84.9
2009/10							
Sector	Item	Shares of total			Execution rates		
		Foreign	Local	Total	Foreign	Local	Total
Overall	Current	36.6	9.5	46.2	60.8	143.8	77.9
	Capital	27.5	26.3	53.8	40.2	105.8	72.3
	Total	64.2	35.8	100.0	52.0	115.9	74.9
Agriculture	Current	67.2	7.0	74.2	80.5	61.9	78.8
	Capital	17.7	8.1	25.8	79.9	65.0	75.2
	Total	84.9	15.1	100.0	80.4	63.6	77.8
Education	Current	17.8	21.8	39.6	94.6	71.4	81.9
	Capital	29.5	31.0	60.4	25.0	97.7	62.3
	Total	47.2	52.8	100.0	51.2	86.9	70.0
Health	Current	76.4	1.4	77.8	126.4	79.2	125.5
	Capital	15.3	6.9	22.2	50.2	65.4	54.9
	Total	91.6	8.4	100.0	113.7	67.8	109.8
Energy	Current	5.1	22.6	27.7	1.3	58.9	48.2
	Capital	38.6	33.7	72.3	9.6	38.0	22.8
	Total	43.7	56.3	100.0	8.6	46.4	29.9
Roads	Current	5.0	7.0	12.0	62.3	288.9	194.0
	Capital	42.5	45.5	88.0	46.1	129.5	89.2
	Total	47.5	52.5	100.0	47.8	150.6	101.8
Water	Current	69.4	14.7	84.1	62.7	67.1	63.4
	Capital	13.2	2.6	15.9	74.2	121.1	82.0
	Total	82.7	17.3	100.0	64.5	75.3	66.4

Source: MoF, IFMS data and authors' calculation.

1.74 **Despite having a large share of capital spending, the MoID executed more than 100 percent of its development budget in 2009/10.** The high execution rate in the MoID is explained in part by over-commitments made on the roads contracts signed in June-December 2010. The MoID over-committed more than TShs 100 billion in 2009/10 on new roads project that were severely under-budgeted. The actual payment allocated of this over-commitment, which was not part of the originally approved budget, has the impact of over-estimating the execution rate (which usually compares actual spending and approved budget). Reallocation warrants for 2009/10 show that only TShs 15 billion was reallocated to the MoID, which was well below the amount required to cover the TShs 100 billion over-commitment. This suggests

that the MoID carried huge arrears into the 2010/11 fiscal year owing to the over-commitment in 2009/10. These arrears will have a huge impact on reducing available resources for implementing roads projects in 2010/11 and subsequent years. Furthermore, over-commitment reduces the credibility of the budget as the tool for allocating resources among competing priorities due to unavoidable reallocation during budget implementation. This also reduces the credibility of the entire public financial management system, especially commitment control.

1.75 In 2009/10, for the third subsequent year, the MoEM failed to execute more than 30 percent of its development budget. Notwithstanding a huge problem of unreliability and inaccessibility of electricity in Tanzania, implementation of energy projects continues to face major challenges. In addition, unreliability and low accessibility of electricity in Tanzania continues to limit the potential of achieving the MKUKUTA II strategic objectives of growth and poverty reduction. The MoEM, which had a large share of its development budget locally funded, saw its development budget execution reach only 29 percent in 2009/10 (Table 15). Normally, the local component of the MoEM budgeted development funds are released late in the year, in which case the MoEM's capacity to absorb these funds before the financial year closes is limited, which means the funds get reallocated to other ministries. Low execution rates over the last three years suggest that there is weak capacity in the MoEM to plan, prepare, appraise, procure, monitor, and evaluate projects, which indicates a need for huge capacity building in the entire public investment management. Moreover, improvement in physical implementation capacity of projects requires a corresponding significant improvement in timeliness and completeness of foreign and local development funds release.

1.76 The MoHSW and the MoEVT achieved good execution performance of their development budgets in 2009/10. While a large share of the MoEVT development budget was locally funded, in health, the large share of the development budget was financing current spending; this usually is associated with high execution rates. Despite significantly improved execution rates in the MoEV and the MoHSW, overall execution performance in the education and health sectors is less complete until LGAs are included. A large share of development funds for these sectors is budgeted under the LGA, where most public service delivery also takes place. Looking at the LGAs, execution rates for almost all sectors were low due to delays and incompleteness of released development funds. In addition, weak capacity to plan and execute projects reduced the capacity to absorb funds, especially those released in the last quarter of the fiscal year. It is clear that with LGAs added, overall execution rates in education and health sectors would be lower in 2009/10 but much higher than in 2008/09.

CHAPTER 2

VALUE FOR MONEY IN EDUCATION

INTRODUCTION

2.1 The budget analysis has shown that an increasingly large share of the budget continues to be allocated to education sector spending programs. This has allowed increased necessary inputs and increased access. In many ways, expansion and access were definitely the right goals to be focused on in the last decade: “education for all.” But “education for all” is supposed to be an investment in human capital, and this can work only if schooling produces useful learning outcomes. Learning outcomes (results) so far have received less attention in budget analyses in Tanzania. The inclusion of a value for money (VFM) chapter seeks to rectify this and seeks to move on discussion and dialogue from “education for all” towards “learning for all” as public spending on education continues to increase.

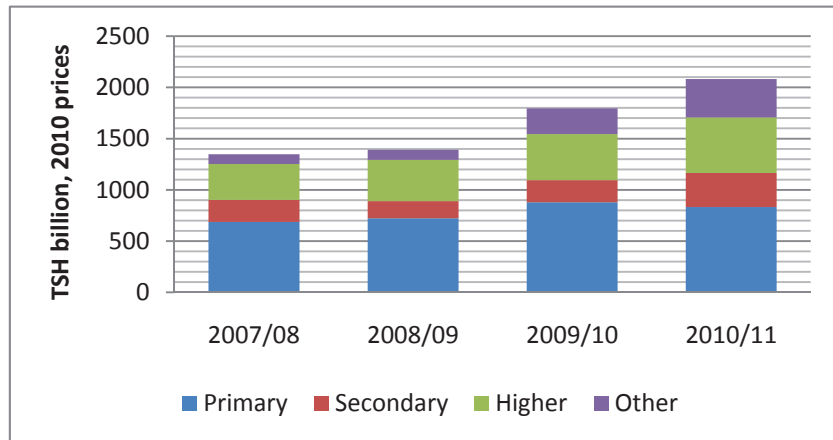
2.2 The programmatic VFM assessment will be carried out every year focusing on one sector/subsector as part of the medium term work program with the PER. The next value for money analysis should be in health, with roads likely next in line. There is no intention to return to VFM in education every year. Education is a good sector to start with because there is a wealth of data on educational performance in Tanzania, as well as on education spending. This includes administrative data on enrolment, drop-out and exam results, also household surveys and special, targeted surveys.

EDUCATION SPENDING AND RESULTS: NATIONAL TRENDS

Strong commitment on spending levels; current bias toward higher education

2.3 Tanzania has a long history of continued substantial increases in education funding. The sector has consistently claimed the highest spending in the country’s budget. Figure 22 shows strong growth in overall education spending averaging 15-20 percent per year in 2007/8-2010/11. Within this, the bill for higher education is growing fastest, so higher education is increasing its share. Most years, spending in the big primary and secondary schooling subsectors grows in real terms, but there are exceptional years. In per capita terms, spending on secondary education fell in real terms in 2008/09, it has since recovered. In per capita terms, spending on primary education fell in the 2010/11 budget. This is also expected to recover quickly.

Figure 22: Public Spending by Sub-sector



Worsening primary enrollment and quality present a threat to value for money

2.4 Learning outcomes and even enrollment rates have started to deteriorate in primary education. During the early 2000s, substantial gains in primary school enrollment rates were linked to universal primary education policies. Exam performance also improved during this period (figure 23), such that the numbers of children completing school and passing exams increased substantially—a major gain in learning outcomes. Since 2008, however, these performance benchmarks have been in decline. Primary school enrollment reached a plateau despite rapid population growth, which caused a drop in official gross enrollment rates. In addition, Primary School Leaving Exam (PSLE) pass rates, which had been improving until 2007, had fallen from 70 percent to 50 percent of candidates by 2009. These factors combine to produce a decline in the proportion of children completing Standard VII (the final year of primary schooling) with a PSLE pass.

2.5 Part of the explanation for deteriorating quality is linked to rapid expansion that started more than 7 years previously. The first universal primary education cohorts entered the primary system in 2002 and therefore started to exit in 2008 and 2009. These large numbers of children stretched resources, and most were educated in much larger class sizes than children a few years older, or a few grades ahead, in the same schools. So some deterioration in average quality was to be expected in this “universal primary education vanguard,” and this could partly explain the deterioration in the proportion of 13 years olds passing PSLE in 2008 and 2009.

2.6 The issue of declining quality still represents a serious threat to value for money in education if it cannot be addressed. We can use a quality-adjusted unit cost to measure value for money in a very simple way – this is just the recurrent spending in education divided by the number of exam passers in a given year, and approximates to “cost per passer.”⁴ The decline in

⁴ This unit cost is selected partly because it is simple, also because it relies on spending and exam results data. A theoretically superior indicator can be created using enrollment data and attrition rates to estimate costs of pupil-years per passer. However, this measure is rejected because of accuracy problems in enrollment data.

PSLE pass rates have been sufficient to raise the cost per passer, in real terms, 40 percent higher in 2009 than in 2007 (figure 24), which represents a substantial decline in value for money.

Figure 23: Primary School Leavers Pass Rates

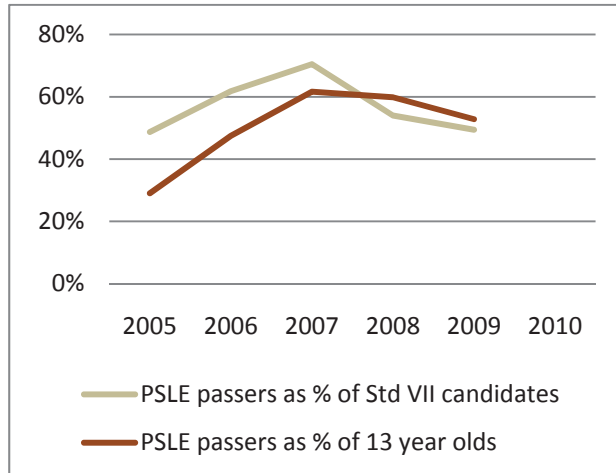
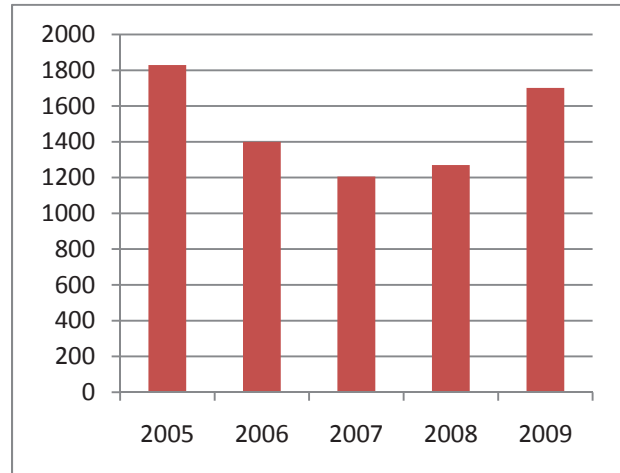


Figure 24: Public Expenditure per PSLE Passer (“cost per passer”)

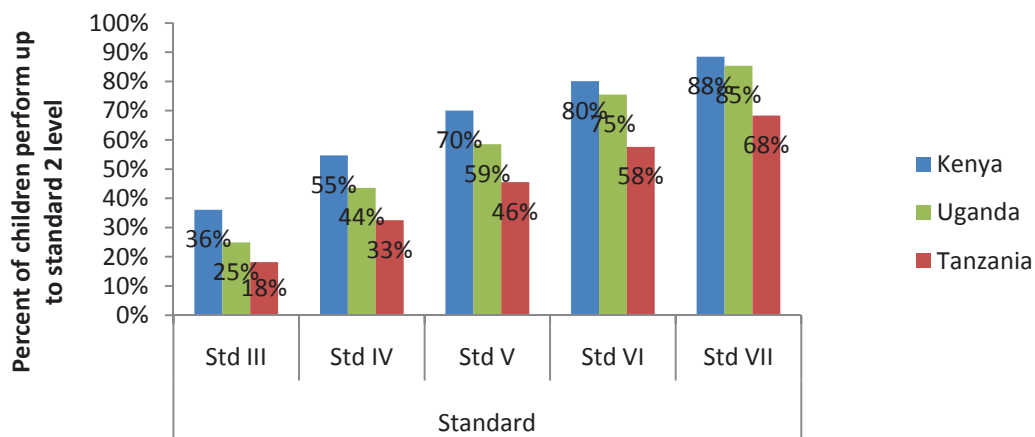


Outcomes deteriorated in 2007-2009, but the level of outcomes achieved in Tanzania was too low even in 2007.

2.7 There is evidence that the quality of Tanzania’s primary education is low compared with that of neighboring countries and that the level of achievement is fundamentally inadequate as well as deteriorating. A forthcoming report by Uwezo⁵ shows Tanzanian students performing much worse than students in Uganda and Kenya on comparable English, numeracy, and Swahili tests designed to represent a Standard II (8-9 year old) level of learning. It shows that many Tanzanian pupils take seven years to acquire the skills they should have acquired in two years. Figure 25, below, shows mathematics results. In Tanzania, only 18 percent of children in Standard III could pass the Standard II level test. Even by Standard VII, when children are at least 13 years old, only 68 percent pass the Standard II level test. Learning outcomes at this level mean that near-universal access to primary school will not generate the benefits associated with a much stronger basic skills set in the population. In the worst case scenario, very poor quality in primary education has the potential to undermine the demand for education and threaten universal primary education gains. (Uwezo notes that the tests results are not good in any of the three countries, but they are worst in Tanzania).

⁵ “Learning Across East Africa,” Dorica Andrew and Hans Hoogeveen, *Uwazi at Twaweza housed by Hivos Tanzania, forthcoming 2011*

Figure 25: Results of Uwezo’s Standard-II (8-9 year old level) Mathematics Test in Pupils from Standard III to Standard VII (9-14 year olds)



Secondary education sees impressive expansion, but also suffers severe quality problems

2.8 Historically, participation in post-primary education in Tanzania has been low by any standards, certainly by the standards of the East African Cooperation. In 2000, just 47,000 students—approximately 5 percent of 17 year olds in the country—were candidates for Form 4 exams⁶. It was vital to address this very low level of post-primary education which would form a real constraint to labor-using, poverty reducing growth in the country. This has been addressed very impressively. In 2005, there were 355,000 students enrolled in government secondary schools; another 65,000 were enrolled in private schools. By 2010, the numbers had grown to 1.4 million in government schools and 237,000 in private schools, which represents an annual growth rate of 31 percent; with that growth rate, the secondary GER rose from 9.4 percent to 32.4 percent in five years. Even higher enrollment rates are already built into the system because of student numbers in Forms 1 and 2 (first two years of secondary school).

2.9 During this period of enrollment expansion, public spending grew fast at 19 percent per annum in real terms, but at a rate that failed to keep up with the expansion of the school population. As a consequence, by 2008/09, real expenditure per student had fallen to half the 2005/06 level. There was some recovery in 2010/11, but spending rates continue to fall short of increased rates of enrollment.

2.10 Severe quality problems in Tanzania’s secondary education sector pose serious current and future challenges with regard to value for money. Quotation of pass rates is hampered by the existence of “Division IV,” which is the lowest division in the Form 4 CSEE (Certificate of Secondary Education Exam) above a fail and is not sufficient to allow entry to Form 5. Therefore, a useful pass is one in Divisions I to III. If Division IV is treated as a pass in the main Form 4 exam, public spending per CSEE passer is now increasing: the cost per CSEE passer rose from TShs 826,000 in 2008 to TShs 1.04 million in 2009. Since 2007, the number of Division IV passes has been increasing to the point where a majority of students fail CSEE and the majority of the rest get a Division IV, quasi-fail. Division I-III fell from 27 percent in 2008 to 18

⁶ Most secondary school students leave at Form 4, but some stay on into “6th form” before university

percent of students in 2009, and in 2010 this has fallen to just 9 percent of candidates. Therefore, a better measure of value for money looks at “costs per passer,” including only Division I-III passes. This cost per passer is high and increasing fast—from TShs 3.8 million in 2008 to TShs 8.2 million in 2010—a clear indicator of current value for money problems. For comparison, recall that cost per passer in primary is only TShs 1.6 million.

Figure 26: Children in Secondary School

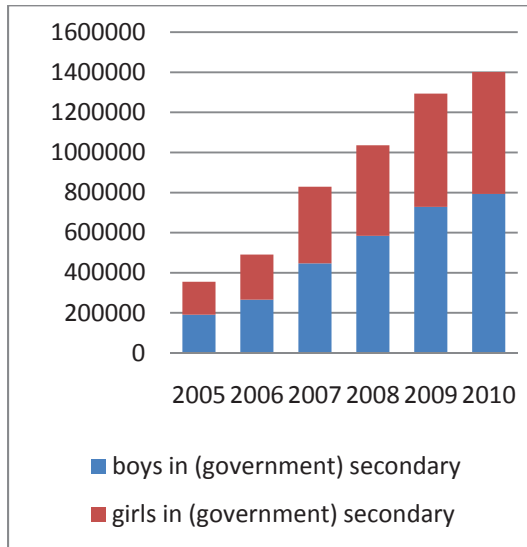
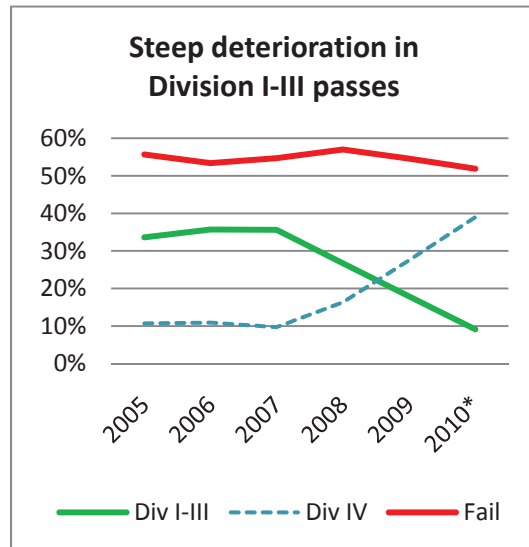


Figure 27: % CSEE Candidates at Grade



2.11 There are other signs that severe quality problems are pervasive in secondary schools. In 2009, approximately 4 percent of secondary schools had an average grade point average (GPA) score of 3 or less (in Tanzania, GPA equates to average “division” so 4 is average Division IV, while 1 represents the best, Division I pass achieved in everything). This means that the average candidate in 96 percent of schools scored either Division IV or Fail on the CSEE exam. Without attention to quality, Tanzania risks producing large numbers of very poorly educated and unemployable Form 4 “graduates.” This would not represent value for money.

2.12 There are also signs that secondary school teachers in the hugely expanded system may not be equipped to teach the course. A study on service delivery indicators⁷ tests teachers against the curriculum they are teaching. In mathematics, less than 50 percent of teachers passed the tests necessary to teach for CSEE, and in English language, which is the language of instruction in Tanzanian secondary schools, only 25 percent of teachers passed the test. This suggests that overstretched resources and the lack of available staff could be causing serious quality problems.

⁷ “Delivering Service Indicators: Pilot in Education and Health Care in Africa,” *AERC/Hewlett Foundation/World Bank*, forthcoming 2011

Key issues are different in higher education: unit costs are under control, but without student loan reflows, affordability is in doubt

2.13 Historically, Tanzania has had very, very low participation in higher education, but as with secondary education, the country has made great strides in the last five years, with enrollment growth the same as in secondary education, 31 percent per annum. **Error! Reference source not found.** shows that Tanzania now approaches neighboring countries in terms of higher learning enrollment rates. There is no evidence of a collapse in quality in tertiary education. Public spending in higher education has been increasing faster than that for secondary education, but spending per enrollee has still fallen so unit costs are under control.

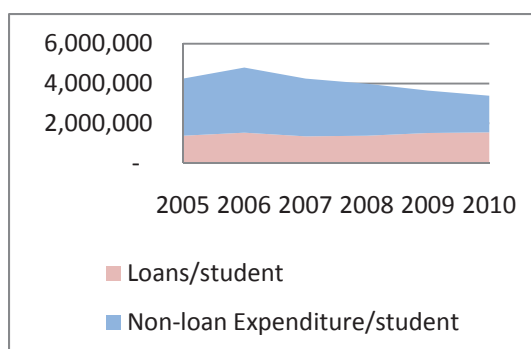
2.14 There is a cost-recovery instrument for higher education, but currently it generates very little revenue – higher education is becoming very expensive for government. Since 2005 a large and increasing share of the higher education budget has been financed through the student loans scheme. This is intended to reduce the burden of higher education on the public purse, and in fact the public spending per student other than the loan has decreased substantially since 2005 (figure 25). Cost-recovery is important because by 2010, higher education was taking 28 percent of the education budget, compared with just 16 percent for secondary and 40 percent for primary (figure 20 above). A major challenge for the whole education sector, therefore, is how to generate reflows (repayments) under the student loan scheme.

2.15 Student loan reflows are more about affordability than value for money. They are also an issue for equity, since the majority of higher education students are from, and stay within, the top 20 percent of Tanzania’s income spectrum, and the individual education subsidy they enjoy under current arrangements is unjustifiably high (without loan repayments). Public expenditure per 20-23 year old in higher education is higher than public expenditure per 7-13 year old in primary education, despite the fact that there is only 4 percent enrollment of 20-23 year olds and near universal enrollment of 7-13 year olds. Having tertiary education is a very good predictor of having a high income.

Table 16: Trend in Tertiary Gross Enrollment Rates (%GER) in East African Countries

Country	1985	2001	2002	2004	2009
Burundi	0.55	1.14	1.81	2.33	2.68
Kenya	1.28	2.81	2.81	2.90	4.05
Rwanda	0.34	1.71	1.94	2.66	4.82
Uganda	0.79	2.75	3.04	3.48	3.69
Tanzania	0.26	0.69	0.81	1.25	3.86

Figure 28: Public Expenditure per University Student per year, TShs 2010 Prices



BEYOND THE AVERAGES: UNEQUAL FUNDING, UNEQUAL OUTPUTS, AND LOCAL INEFFICIENCIES

At district level, funding, social conditions, and educational outcomes are persistently unequal

2.16 This report draws on analysis of district level data gathered from the EMIS system, Necta, various household surveys, and financial data from MoF and President Office Regional Administration and Local Government (PMO-RALG). It is already well known that there is persistent high inequality across districts in Tanzania in terms of public spending per capita (figure 26), educational outcomes, and social conditions. This produces a lot of variation in the “universal” service offered: in some districts, there are fewer than 30 children for each primary school teacher, while in others the number is closer to 80 (figure 27). This variation carries through to outcomes: in some districts, 15 percent of 13 year olds can expect to pass PSLE, while in others over 90 percent can expect to pass (figure 28). In general, the worst served districts tend to have worse social conditions. This is probably because it is more difficult to attract teachers to these remote, poor areas⁸. Figure 29 shows higher poverty in districts with least education spending.

Figure 29: Primary Education Budget per Capita across Districts – Persistent Inequality

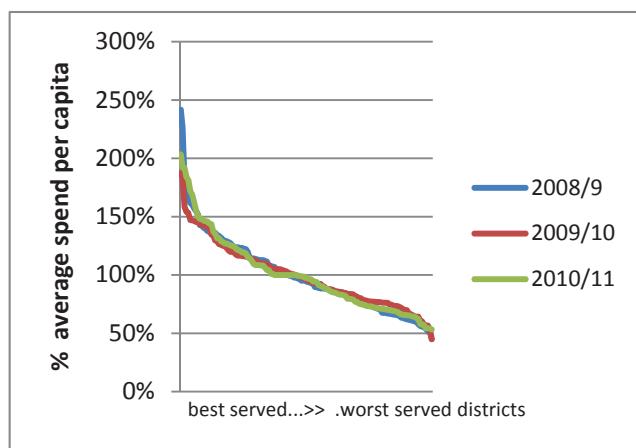
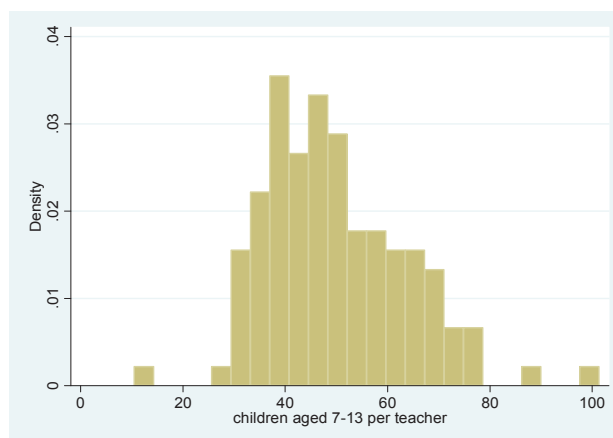


Figure 30: Children per Primary School teacher – District Average Ranges from 30 to 80



⁸ There is strong evidence already available that the high variation in expenditure per capita on education (and other services) in each district mainly occurs in wage expenditure and is driven by very unequal deployment of staff. Annual efforts to redeploy staff to underserved areas are defeated by in-year transfers to other areas. There are no effective limits on the recruitment of staff in highly staffed districts, and there is very little scope for creating incentives for staff to remain in districts with recruitment and retention difficulties. See “*Equity and Efficiency in Service Delivery: Human Resources*,” Background Analytical Note for the Annual Review of GBS 2008 (Tanzania); “*Equity in Public Services in Tanzania and Uganda*,” World Bank Policy Note, April 2010, Report 56511_AFR

Figure 31: PSLE Passes per 13 Year Old – District Average Ranges from 0.2 to 1.1 in 2008

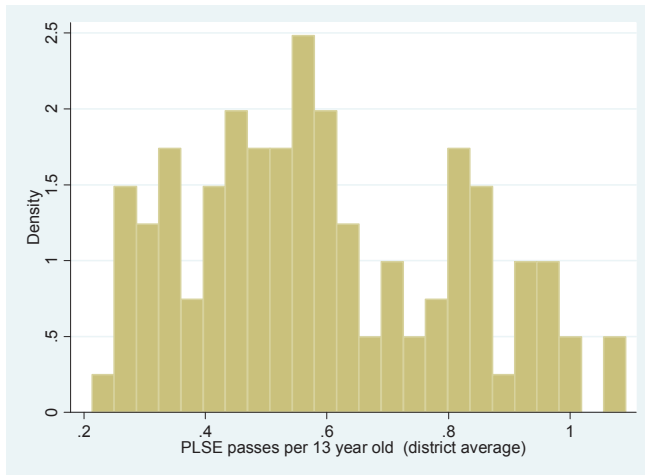
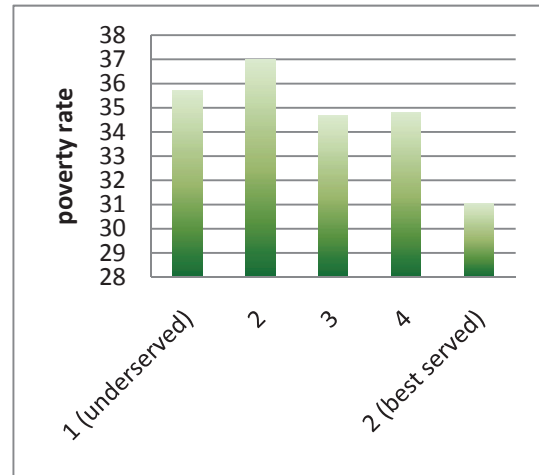


Figure 32: Higher Poverty Rates in Districts with Less Spending



Social conditions affect outcomes

2.17 We would expect poor social conditions to make learning outcomes more difficult to achieve, and we know that poor social conditions tend to mean less resources, too, so it is no surprise that poor social conditions are strongly correlated with worse educational performance (Figures 33-35).

Figure 33: Poverty and Passers per 13 Year Olds, 2008 (-32% correlation)

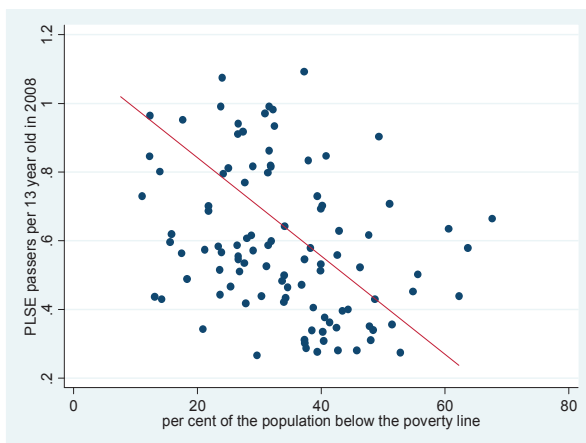
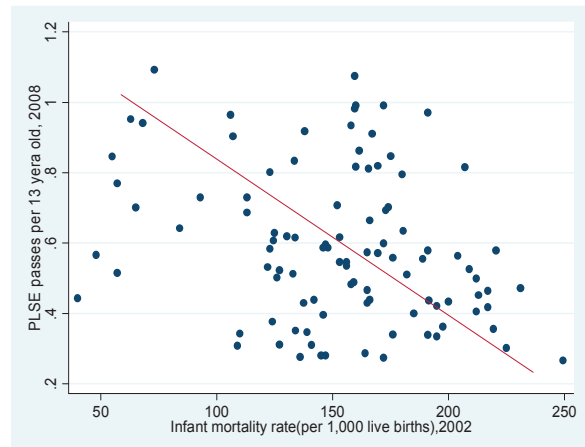
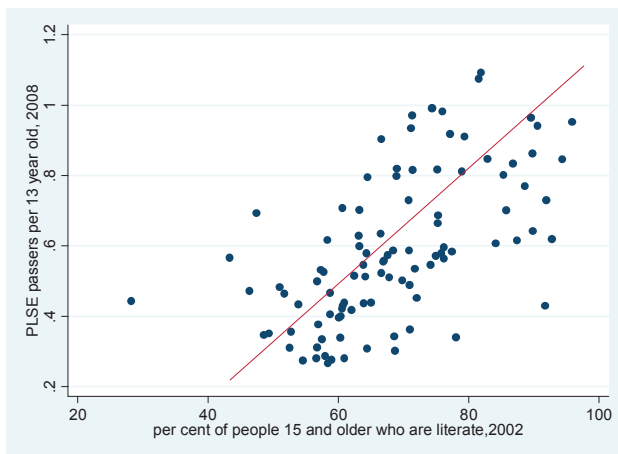


Figure 34: Child Health and Passers per 13 Year Olds, 2008 (-28% correlation)



**Figure 35: Adult Literacy and Passers per 13 Year Old, 2008
(60% correlation)**

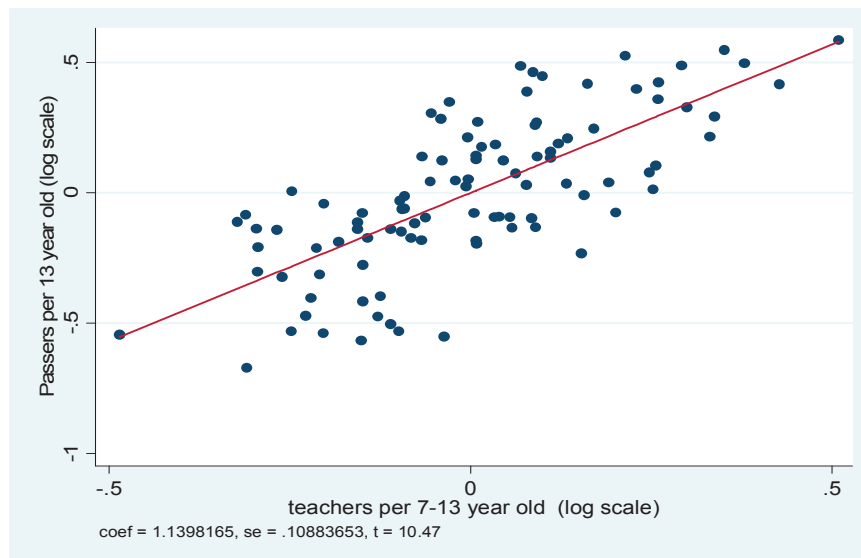


A strong relationship can be observed between different levels of spending and different results, so unequal spending patterns really matter

2.18 There are strong theoretical reasons to think that, all else being equal, increased resources should produce improved results in education. This is why we have public spending in education. However, it is often difficult to find empirical evidence for this relationship. In many international settings, usually where average levels of resources are higher and the differences between resource levels in different schools and districts is less pronounced, it is difficult to see this relationship or confirm this theory. Other factors seem to dominate: things like the children’s ability, the unobserved quality of teachers, and managerial effectiveness/teacher incentives, which are also very hard to observe. All these other factors exist in Tanzania too, so it is not obvious that we will see a strong relationship between resources and outcomes in Tanzania.

2.19 By modeling educational outcomes as a function of resources, controlling for social factors, we do in fact see a strong correlation between resources and outcomes in Tanzania. This actually explains 72 percent of the wide variation in outcomes (PSLE passes) in primary education in Tanzania. The relationship is also observable in secondary education, but weaker (40 percent fit). The plot in Figure 36 gives an idea of the strong relationship between an input (teachers) and exam passes looking across districts in Tanzania. This is an important result because it means the highly unequal resource allocation in Tanzania is at least significantly responsible for highly unequal results.

Figure 36: More Teachers Means More Exam Passes (controlling for social conditions)



There is also strong evidence that uneven spending patterns are inefficient

2.20 The level of spending in a given setting relates to efficiency if there are diminishing returns or variable scale economies; in Tanzania, there is clear evidence that this is the case. Without using too many economic terms, we might theorize that an extra teacher or other input would have a lot more impact in very underserved areas (where there are hardly any teachers) than in other areas where there are already many teachers. In fact the standard⁹ estimation supports this. Estimates of exam-passers against expenditures show decreasing returns at all levels, which means that all else being equal, the cost per passer is lower in underserved districts than better served districts and that the expected impact of an additional teacher or more resources would be greater in underserved districts than in much better served districts¹⁰. There was little additional return on any investment made in excess of TShs 18,000 per capita. Thus, efficiency and equity would be served by the same incremental changes to resource allocation, and a more equitable distribution of resources might also be more efficient.

Social conditions and resources don't explain it all: there is substantial inefficiency in some districts, which must have a local cause, and this is a critical value for money issue

2.21 Social conditions and resources have an important impact on school system performance, but local managerial effectiveness and/or local teacher incentives seem to cause very significant variations in performance too. For example, there is evidence of substantial absenteeism in Tanzania: a recent study¹¹ shows that teachers spend only about a third of their contracted hours in class, and therefore that on average, children can expect only two hours of contact per day

⁹ Standard Cobb-Douglas or log-linear production function gives decreasing returns

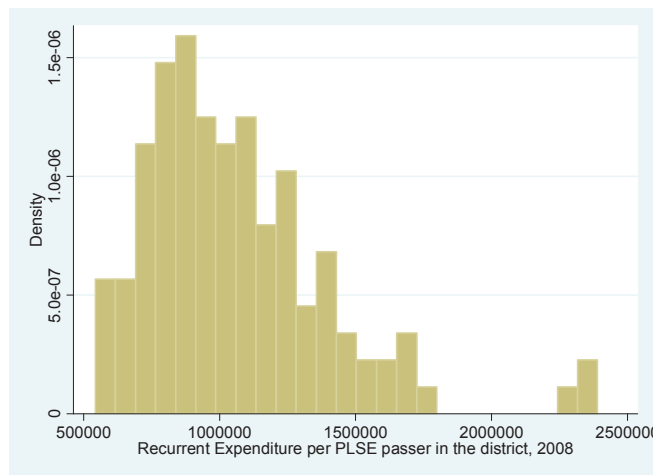
¹⁰ Variation in functional form, such as polynomial function, confirms decreasing returns nature of the production function

¹¹ “Delivering Service Indicators: Pilot in Education and Health Care in Africa,” *AERC/Hewlett Foundation/World Bank*, forthcoming 2011

with a teacher in a classroom in primary school. If the rate of absenteeism is highly variable (the study shows much worse absenteeism in urban areas), it would be likely to have an impact on learning outcomes. This effect might be completely separate from the effects of level of resources and social conditions. The previous paragraphs describe the estimation of a simple production function that seemed to explain 50-70 percent of the variation in performance, but this leaves out the determinants of local managerial effectiveness and/or teacher incentives. They may well be as important as the other factors in explaining performance.

2.22 An examination of unit cost (cost per passer) shows extraordinary variation across Tanzania, from approximately TShs 0.5 million to over TShs 2.0 million (figure 37). This alone suggests that local managerial effectiveness and/or local teacher incentives have a major impact on value for money in Tanzania, because it is impossible for such a variation in cost per passer to arise because of diminishing returns to scale alone.

**Figure 37: Distribution of average unit cost:
 Recurrent expenditure per PSLE passer: district average
 ranges from TShs 0.5m to 2.5m in 2008**



2.23 We can create a better measure of efficiency that allows for the impact on unit cost of other factors like social conditions and the level of spending/diminishing returns. Previous paragraphs described the relationship between resources and outputs from an estimate that controlled for social conditions. This relationship makes it possible to estimate the level of exam performance each district should be producing with average efficiency for Tanzania. The ratio of actual and predicted performance is then a measure of efficiency—an efficiency ratio, such that a ratio of actual: predicted performance greater than one means high efficiency, and a ratio below one means low efficiency. Unlike cost per passer, this measure controls for other cost factors (in this case, social conditions and diminishing returns). Overall the efficiency measure is correlated (63 percent) with cost per passer, but in some cases high cost per passer is expected because of social conditions and isn't measured as particularly inefficient, and in other cases, low cost per passer is expected because of social advantages and isn't measured as particularly efficient.

We can identify specific districts with very high efficiency and low unit cost

2.24 The following group of seven districts did very well on unit cost (cost per passer) and on the efficiency measure (table 17). They are not necessarily the most efficient districts in Tanzania, but they are certainly among them on both unit cost and technical efficiency ratio measures. On average, the unit cost of producing a PSLE passer in this group is TShs 659,000 in 2008. This is 38 percent below the national average of TShs 1,062,499 per passer in the same year.

2.25 The group has social indicators and spending levels which are close to the national average. In fact, social indicators are slightly better than average: only 87 percent of the national average for poverty; average (though variable) mortality rates for children under the age of five; and above average adult literacy rates. Education spending is about 5 percent above the average level. In view of these indicators, this set of districts should perform modestly better than the national average in terms of learning outcomes and costs per passer. (Note there is variation within the group: Njombe Rural, for example, has a low level of spending.)

Table 17: Some of the Most Efficient Primary School Districts in Tanzania

(2008 data and prices)	Public expenditure per passer (unit cost)	Efficiency (high is good)	Public expenditure per capita (for primary)	Child population per primary teacher	PSLE passers per 100 13 year olds	% poverty rate	Under five mortality per thousand	Adult literacy rate (%)
SUMBAWANGA								
URBAN	690,360	1.36	15,657	45.3	100.2	27.4	138.0	77.2
LUDEWA	722,647	1.37	19,195	37.8	117.3	24.1	159.5	81.6
KYELA	736,148	1.43	18,020	42.0	108.1	23.8	172.0	74.4
NJOMBE RURAL	718,514	1.46	10,499	43.0	88.6	25.0	165.5	79.0
KILOMBERO	574,287	1.47	11,581	46.6	89.1	29.0	160.0	75.2
MUFINDI	624,326	1.54	15,128	40.7	107.0	32.3	159.5	76.0
MBULU	553,223	1.76	12,332	40.1	98.5	49.3	107.0	66.6
Average this group	659,929	1.48	14,630	42.2	101.3	30.1	151.6	75.7
Average district	1,062,499	0.99	13,869	45.6	64.5	34.3	151.0	68.5

2.26 In fact this group has far better learning outcomes than could be expected given social conditions and spending levels, and this is why their efficiency measure is so high. The background factors mean that in comparison with the national pattern, these districts should be able to generate an above average rate of 69-72 passes per 100 13 year olds. These districts manage to achieve more than 100 PSLE passes per 100 estimated 13 year olds in the district. This puts them on Tanzania's productivity "frontier." This provides a useful benchmark group by which to measure other districts in Tanzania.

We can also describe a group with very low efficiency and high unit costs

2.27 The next group comprises 16 districts that perform badly both on simple unit cost measures (cost per passer) and the efficiency measure; they are far from Tanzania's efficient production frontier (table 18).

Table 18: Some of the least Efficient Primary School Districts in Tanzania

(2008 data and prices)	Public expenditure per passer (unit cost)	Efficiency (high is good)	Public expenditure per capita (for primary)	Child population per primary teacher	PSLE passers per 100 13 year olds	% poverty rate	Under five mortality per thousand	Adult literacy rate (%)
KONDOA	1,489,672	0.60	12,581	50.5	37.3	20.9	110.0	68.6
MASASI	2,278,683	0.61	12,344	52.0	33.0	37.4	225.0	68.7
UKEREWE	1,488,731	0.61	12,522	50.1	37.2	48.4	176.0	78.1
RUANGWA	1,729,542	0.62	11,352	58.5	29.0	29.7	249.5	58.4
SHINYANGA RURAL	1,719,680	0.63	11,941	62.4	30.7	42.7	145.0	56.6
KASULU	1,475,025	0.63	11,236	62.4	33.7	40.4	109.0	64.4
KIBONDO	1,519,330	0.63	10,376	87.2	30.2	39.4	136.0	59.0
KISHAPU	1,541,079	0.64	10,679	67.1	30.6	45.7	147.0	60.9
SIKONGE	2,390,588	0.64	20,467	66.0	37.8	42.5	139.0	48.6
LINDI URBAN	1,686,152	0.67	20,354	46.5	53.3	18.3	159.0	70.9
MPANDA RURAL	1,608,936	0.69	10,098	67.6	31.3	37.6	164.0	58.0
SAME	1,371,369	0.69	21,743	33.4	70.0	34.1	84.0	89.8
MEATU	1,609,327	0.69	10,886	64.6	29.9	52.9	172.0	54.5
NACHINGWEA	1,389,183	0.70	12,439	52.4	39.6	41.4	197.5	71.0
KAHAMA	1,413,736	0.71	10,883	68.8	34.0	37.3	127.0	56.7
KONGWA	1,342,471	0.79	11,105	62.2	36.5	40.2	195.0	57.5
Average this group	1,628,344	0.66	13,188	59.5	37.1	38.1	158.4	63.9
Average district	1,062,499	0.99	13,869	45.6	64.5	34.3	151.0	68.5

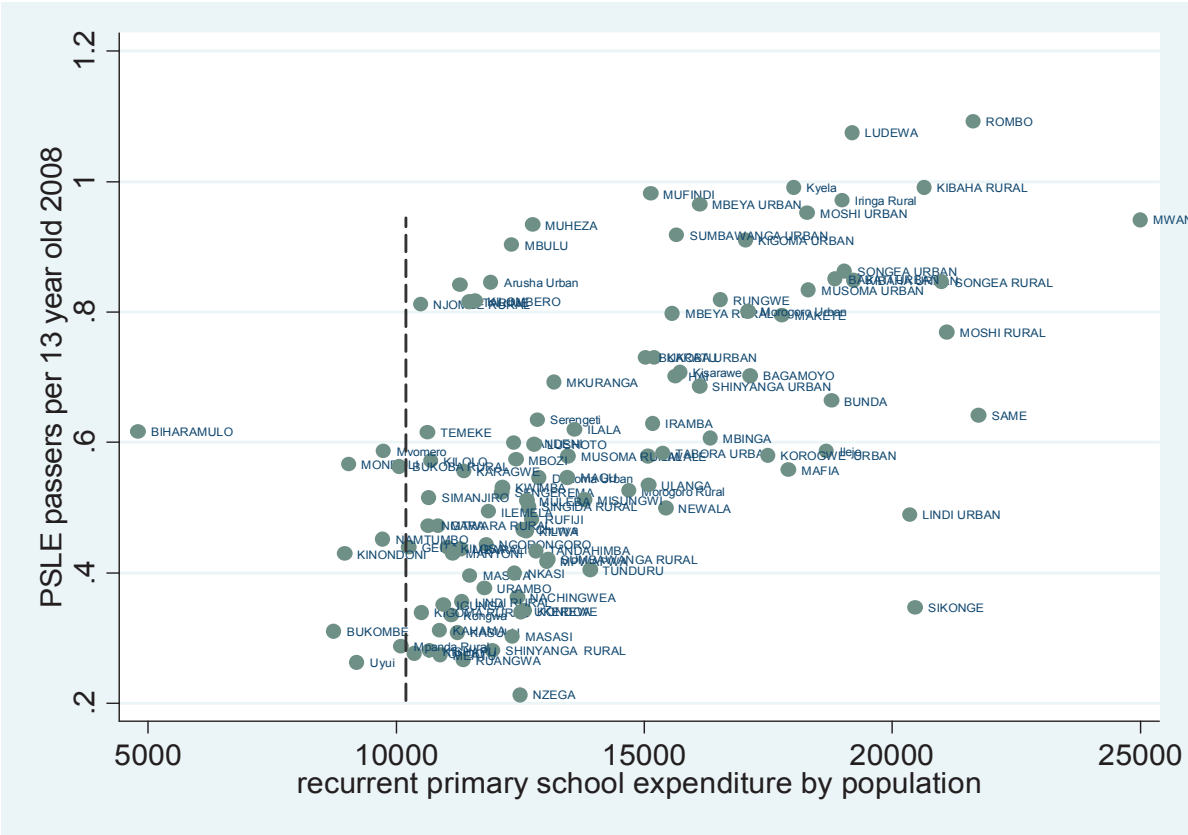
2.28 Again, social conditions are close to average in this group, as is the level of public spending on education. If anything, these districts are slightly disadvantaged, compared with the national average, and there is much variation within the group. They are also funded slightly worse, on average. Relative to the national pattern, this group of districts is predicted to achieve only slightly worse than average results of about 56-57 passers per 100 13 year olds.

2.29 This group has performed much worse, however, than the national pattern would predict given local conditions. Exam performance is very poor—just 37.1 passes per 100 13 year olds on average—which means a 13 year old from these districts has one half the normal chance of passing PSLE. The efficiency scores are all low: averaging 66 percent compared with 148 percent in the previous group. As a result, unit costs/costs per passer are also very high; these districts manage to spend TShs 1,628,344 for each PSLE passer produced in 2008, 60 percent above the national average.

Unfortunately, most districts are quite far from the “efficiency frontier” in Tanzania

2.30 Figure 38 shows that most of Tanzania’s districts are far from the green “efficiency frontier” and that some are extremely inefficient. The graph plots expenditure per capita against PSLE passers per 13 years old in each district. The most efficient districts are highlighted in green, most inefficient in red. Districts in vertical alignment have the same public spending per capita, including those near the red and green lines. At around TShs 12,000 per capita (purple vertical dashed line) there are clusters near the green line and the red line, where spending is very similar but where exam performance is about three times better on the green line than the red line. Far to the right of the panel, there is also a sub-group of three inefficient districts (Sikonge, Lindi Urban, and Same) that are well resourced and have mostly good social conditions. These districts’ primary education spending rises above TShs 20,000 per capita, and they have achieved below average poverty rates and above average adult literacy rates. They are predicted to generate over 80 PSLE passes per 100 13 year olds but actually they manage only 53, which demonstrates that even districts that enjoy relative advantages can be inefficient.

Figure 38: “Frontier” Group Circled in Green – Highly Inefficient Districts Circled in Red



2.31 The evidence documents how some seriously underperforming districts in Tanzania have unexplained high local costs and/or are wasting resources. This sometimes has nothing to do with insufficient resources or poor social conditions but is due to much more local factors. In some ways, this is good news, because managerial or teacher inefficiency should be a more tractable problem than poor social conditions.

WHAT IS THE SCALE OF INEFFICIENCY?

Potential efficiency savings, if causes can be identified, could be up to TShs 310 billion per annum in primary education alone; this is 1 percent of GDP

2.32 What is the potential for savings if laggard districts can be made more efficient? How much the 16 most would identified high cost districts save were they to achieve average efficiency? What if all 40 below average districts achieved average efficiency? Or what if all Tanzania's districts achieved the same sort of efficiency as exhibited by the green group of districts close to the efficiency frontier?

Table 19: If these 14 Districts Achieved Normal Efficiency, they would save TShs 38 billion

(2008 data and prices)	Public expenditure per passer per passer (unit cost)	Current public expenditure per capita	Current PSLE passers per 100 13 year olds	Predicted expenditure/capita to achieve given PSLE (from normal prediction)	Pop-weighted saving/current waste (TShs billion)
KONDOA	1,489,672	12,581	37.3	4,518	4.10
MASASI	2,278,683	12,344	33.0	4,549	2.96
UKEREWE	1,488,731	12,522	37.2	4,688	2.43
RUANGWA	1,729,542	11,352	29.0	4,360	1.03
SHINYANGA RURAL	1,719,680	11,941	30.7	4,723	2.37
KASULU	1,475,025	11,236	33.7	4,501	5.01
KIBONDO	1,519,330	10,376	30.2	4,211	3.03
KISHAPU	1,541,079	10,679	30.6	4,374	1.79
SIKONGE	2,390,588	20,467	37.8	8,427	1.90
LINDI URBAN	1,686,152	20,354	53.3	9,195	0.54
MPANDA RURAL	1,608,936	10,098	31.3	4,771	2.30
SAME	1,371,369	21,743	70.0	10,352	2.86
MEATU	1,609,327	10,886	29.9	5,165	1.69
NACHINGWEA	1,389,183	12,439	39.6	6,123	1.21
KAHAMA	1,413,736	10,883	34.0	5,466	3.82
KONGWA	1,342,471	11,105	36.5	6,929	1.23
MEAN	1,628,344	13,188	37.1	5,851	
TOTAL SAVINGS					TShs38.3bn

2.33 If the 16 districts in tables 18 and 19 were to move to average efficiency, they would save TShs 38.3 billion(table 19). For example, Kasulu should be able to achieve 33.7 passers per 100 13 year olds for an outlay of just TShs 4,501 per capita, whereas the district now spends TShs 11,236 per capita, wasting TShs 6,735 per person or TShs 4.14 billion per annum in total. Current waste in these districts totals TShs 38.3 billion (Table 19).

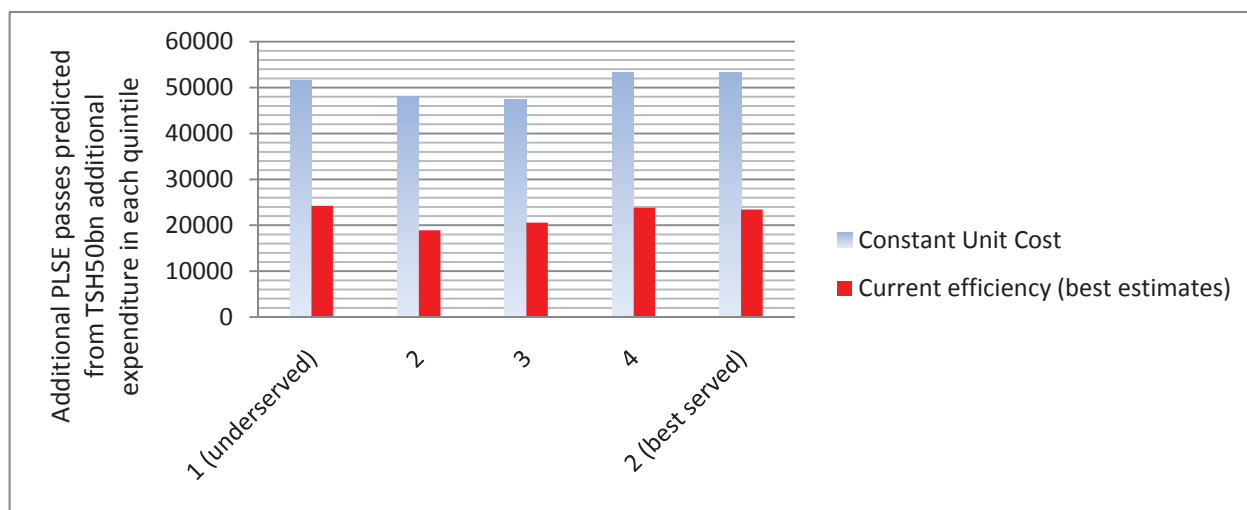
2.34 Finally, what would be the cost savings if all districts achieved a similar unit cost to the "frontier" districts? This would be an average TShs 660,000 per passer compared with the average (in 2008) of TShs 1,062,000, or a 38 percent saving across the entire recurrent primary education budget. For 2008, this would have meant saving over TShs 250 billion. By 2010, this saving could rise to an estimated TShs310 billion, equal to nearly 1 percent of GDP being wasted on inefficiency in primary education each year.

Potential performance and equity gains if efficiency savings, or new resources, are deployed in different sets of districts:- it's equitable and efficient to direct resources to the least served districts

2.35 Section 1 recounts how Tanzania's very unequal distribution of resources for primary education is persistent over time. Somehow, the system continues to deliver the bulk of discretionary resources to districts that are already well served and may not be very efficient. The finding was that additional resources for the best served districts had hardly any impact, whereas much greater impact would be predicted, in general, in less well served districts. However, this is a stylized finding, holding other things equal. The finding might be mitigated by the fact that less well served areas are often those with worse social characteristics and higher poverty that could be underlying causes of higher costs. Many of them might also have severe management problems causing inefficiency. Factoring all this in, is it still a good idea to try to direct resources to the worst served districts?

2.36 This question can be examined by estimating the impact of an additional TShs 50 billion in primary education spending in different groups of districts: quintiles arranged according to 2008 primary education spending per capita. In figure 38, underserved districts are shown on the left and better served districts on the right.

Figure 39: Estimated PSLE Passers for an Extra TShs 50 billion Spent in Each of Five Groups of Districts, Underserved up to Best Served



2.37 Figure 39 shows the TShs 50 billion spent in underserved/middling or better served districts under two different sets of assumptions. The first assumption is constant unit cost. This is just a comparison of the average unit costs in underserved and better served areas. In fact, they don't differ very much, so the TShs 50 billion produces about 50,000 new PSLE passers regardless of which quintile receives it. Poorer social conditions in the underserved areas aren't enough to push up the unit cost very much, on average. However, this assumption is not realistic, as unit costs are not constant. Rather, costs increase with scale. The constant unit cost assumption produces very significant overestimates. This itself is instructive: this is why we should not expect a doubling of per capita primary education expenditure to produce a doubling of results.

2.38 The second set of assumptions produces the bars highlighted in red because it should produce the best estimates. Here, the assumption is that the managerial/teaching inefficiencies observed with current resources are preserved in the use of the new resources in each district, and the Cobb-Douglas production function described above is used to estimate the impact of an extra TShs 50 billion in each set of districts, holding social conditions and efficiency constant. This assumption has a great impact on individual districts because some are so much more efficient than others. Across quintiles, however, the effect is greatly muted. Results are similar to the constant unit cost estimates except that far less extra performance is estimated. However, also note that the least well served areas get more out of an extra TShs 50bn than the rest.

2.39 Overall, this is strong evidence in favor of distributing incremental resources, or the proceeds from efficiency savings, to the worst served districts, although this presents difficulties in administration and implementation.

District level information could be used to target incremental resources in an even better way

2.40 In the interests of equity and efficiency, the authorities could try to target districts that are both underserved and efficient. If resources could be absorbed in those districts (which would require that staff could be persuaded to stay in them) then very good learning impact could be expected. Table 20 shows twelve districts with very low levels of spending but reasonable or good efficiency and with average or low cost per passer. It would be good for equity and efficiency to target these districts for extra resources using the current education system, but with measures to make sure staff could be retained (an exception might be Njombe Rural, which is so efficient that it manages to achieve great results even with meager resources). The list in table 20 excludes underserved districts that are very inefficient.

Table 20: Underserved Districts with Good Efficiency

(2008 data and prices)	expenditure per capita	cost per passer	efficiency score	passes per 13 year old
BIHARAMULO	4,794	810,584	2.18	74%
MONDULI	9,046	1,077,606	1.48	68%
NAMTUMBO	9,735	871,840	1.03	54%
MVOMERO	9,747	673,216	1.22	70%
BUKOKA RURAL	10,065	1,181,949	1.07	68%
GEITA	10,255	945,251	1.07	53%
NJOMBE RURAL*	10,499	718,514	1.46	97%
TEMEKE	10,631	699,482	0.99	74%
NGARA	10,647	913,169	1.00	57%
SIMANJIRO	10,660	837,316	1.01	62%
KILOLO	10,697	758,269	1.08	69%
MTWARA RURAL	10,842	929,555	1.29	57%

2.41 In very inefficient districts, underserved or otherwise, outcomes are bad but extra resources cannot be expected to help very much unless something is done to address the chronic inefficiency. This might involve management innovations or new service delivery models. The list in table 20 could be a good starting point for such a scheme.

SUMMARY FINDINGS

2.42 The findings below propose strategies for improving value for money in the Tanzanian system. This should not detract from the fundamental finding that Tanzania's bold changes in education policy in the last decade have been highly beneficial and have either represented value for money already or should represent good value for money in the future. Tanzania has virtually achieved the primary education MDG at low cost, overall. There is room for efficiency gains in primary education but there is still need for more resources in that subsector. The rapid expansion of post-primary education is overdue and developmentally strategic. It is going well in higher education, although cost recovery needs to be improved. In secondary education, quality problems are undermining the benefits so far, but that doesn't mean the expansion was a mistake; enrolling only 5 percent of the age group in secondary education would be disastrous for Tanzania's future growth and poverty reduction. In secondary education, the expansion policy needs to be followed up, not reversed.

- It is essential to find a way to shift incremental resources for primary education to the worst served areas. Inequalities are pronounced, and there is strong evidence that shifting incremental resources to the worst served areas is likely to improve efficiency rather than reduce it (this is the new finding from this note). District specific knowledge could be used to target underserved yet efficient districts, with different treatment for highly inefficient districts.
- There is a strong need to examine what's going on in districts identified as highly inefficient, unrelated to the level of resources or social conditions, but probably related to local management effectiveness or teacher incentives ("governance" issues). These districts might be able to generate efficiency gains or greatly improve their performance. More resources with no other change probably won't improve things much in these districts.
- Overall, there is a major problem with quality in primary education. Given that Tanzania now spends significant sums on primary education, poor quality is a value for money issue across the system. Moreover, at a national level, poor quality could undermine the demand for education among poor groups in the future.
- Secondary education is both a triumph and a problem. The triumph is that the speed of expansion has been extraordinary and has made great progress in rectifying Tanzania's historic deficit in post-primary education. The corresponding problem is that resources are spread more and more thinly over the increasing numbers of pupils, which is creating a critical quality problem in secondary education outside a small group of excellent schools. This destroys value for money, as in 2010, Tanzania spent more than TShs 8 million for every DIV I-III CSEE passer. Part of the cause is probably the low availability of suitably skilled teachers.
- Higher education is too expensive without more cost recovery. Evidence presented in this report does not indicate a collapse in quality in higher education. It seems that the expansion, as rapid as that in secondary education, has taken place in higher education

with reasonable cost control. However, costs were high to start with and the strategy for recovering more of them from graduates via the loan scheme cannot work unless the loan scheme starts to generate reflows. At the moment, tertiary education is on course to overtake primary education as the largest share of the education budget, but only 4 percent of the population will go to university, and this cohort derives largely from the richest stratum of society.

CHAPTER 3

PUBLIC INVESTMENT MANAGEMENT DIAGNOSTIC

INTRODUCTION

3.1 Reforms undertaken to strengthen strategic planning, budget processes, service delivery, and public financial management have achieved varied degrees of success, but all are moving in the right direction. Overall, however, national program efforts have not given sufficient attention to the need to link national priorities to public investment or to monitoring and evaluating program results. Consequently, there is no central mechanism or process in place to guide translation of national strategic plans into policy reforms and expenditure programs (including, and most important, public investment).

3.2 Strategic plans, like MKUKUTA II and Tanzania Development Vision (TDV) 2025, are developed and linked to strategic plans related to energy, education, health, and other sectors, but the Tanzanian government has no systemic monitoring and evaluation mechanism in place to ascertain whether the desired results are achieved. In fact, the process for systematically gathering information about the impact of public expenditures and public investment and analyzing their relevance and impact remains weak. Neither the Ministry of Finance (MoF) nor the President's Office Planning Commission (POPC) collects information about public investment project outputs and outcomes, nor has the government established whose responsibility it would be to do so. Information is collected solely at the line ministerial level.

3.3 Also lacking is a process for collecting information about social and economic cost and benefits during project preparation. This makes it virtually impossible to analyze each proposed project's¹² relevance to growth and poverty reduction and hampers the government's ability to compare projects. Without a process that collects relevant project information, it is impossible to prioritize projects and arrive at an efficient allocation of resources. Individual sectors do make an effort to prioritize their expenditures in their respective sectors, but this does not guarantee an efficient and effective allocation of resources at the national level.

3.4 It is time to connect the dots and combine the various sectoral strategic plans into one national, cross-sectoral implementation strategy. It is encouraging that the POPC has been tasked with such an exercise. However, to bear its intended fruits, this exercise must employ a system for examining uniform and comparable data on projects and expenditure programs, which will provide a basis for comparing project effectiveness across the whole of government. Again, it is encouraging that the MoF has recognized this and is in the process of setting up a unit to monitor the effectiveness of programs and projects supported through the

¹² A project should be seen as a specific activity with given starting and ending points, intended to accomplish specific objectives. Projects can involve current expenditure, such as a technical assistance project, but some investment expenditures may not be done as a project, as with routine procurement of administrative equipment. Most investment spending, though, consists of projects (see Allen 2001).

budget. However, it is unclear how each of these tasks will interact with one another as they are housed in different institutions.

MACROECONOMIC CONTEXT OF TANZANIA'S PUBLIC INVESTMENT PROGRAM

3.5 Tanzania's economy performed strongly over the past decade, backed by economic liberalization between the mid-1990s and mid-2000s, sound macroeconomic policy management, and an expanding public sector. GDP growth accelerated from 3.5 percent on average in the 1990s to approximately 7 percent over the past decade, outpacing the average for sub-Saharan Africa. While drought conditions had significant adverse impact on the agriculture sector, GDP maintained at approximately 6.5 percent in years with poor rainfalls. Far-reaching structural reforms between the mid-1990s and mid-2000s, prudent macroeconomic policies, a favorable global environment, and debt relief provided the foundation for this success. Government spending had experienced extraordinary growth since 2001, financed by a significant broadening of the revenue base and scaled-up donor assistance.

3.6 Despite sustained high economic growth, Tanzania is on track to meet only half of the MDGs by 2015. On the positive side, increased government spending and lower relative import prices led to improvements in consumer durables (mobile phones, televisions, and bed nets), housing quality, and access to education and healthcare, as indicated by increased enrollment in primary education, lower infant and under-five mortality, and reduced HIV prevalence. On the negative side, progress has been very limited in terms of basic needs income poverty, ownership of productive assets in rural areas, maternal mortality, and access to safe water. While Tanzania has seen marked progress on access to education and healthcare, the quality of social services, especially education, is low. Moreover, social services vary among districts, owing to inequity in allocations of resources and infrastructure gaps that block access to services.

3.7 To pursue more inclusive and sustainable growth, the government has recognized the need to invest in complementary public investment that can help to unleash private sector potential. The private sector contribution to growth and poverty reduction has been subdued, curtailed by serious supply constraints. The costs of basic inputs for private business (transport, power, water, contract enforcement, and legal protection) remain very high, while inefficient factor markets and undue regulatory burdens undermine investment incentives. The government has called for a shift toward a greater role of the private sector in the Second National Strategy for Growth and Reduction of Poverty (known by its Kiswahili acronym, MKUKUTA II), endorsed by the newly elected government in November, 2010.

3.8 MKUKUTA II prioritizes investment in infrastructure development as a catalyst for private sector led growth. However, a potential substantial financing gap in Tanzania's budget and the lack of an implementation plan may adversely affect implementation. MKUKUTA II identifies infrastructure sectors, including transportation, energy, and water supply, as "drivers of growth." To scale up investment in these sectors, MKUKUTA II aims to limit growth of recurrent spending (Table 21).

3.9 Development expenditures are projected to increase by 5.5 percent of GDP during MKUKUTA II between FY2009/10 and FY2014/15. In the last five years, though, development expenditure expanded by a modest 1.3 percentage points as a percentage of GDP (Table 21). This expansion was supported mainly by improved domestic revenue mobilization and increased external financing. Recurrent expenditure and financing through grants reduced the ability over the last five years to increase development expenditures. Going forward, a 5.5 percent of GDP increase in development expenditures is to come mainly from a large increase in domestic revenue collection and controlled growth in recurrent expenditures. Indeed, MKUKUTA II is to absorb a significantly higher share of domestic revenue over time: from 60.7 percent in 2010/11 to 84.4 percent in 2014/15. If domestic revenue expansion is less than projected and/or recurrent expenditure is not contained, implementation of infrastructure investment is likely to be jeopardized. At the same time, the government wants to reduce its dependency on donor funding and reduce its domestic borrowing.

Table 21: Additional Availability of Resources for Development Expenditure (changes in % of GDP)

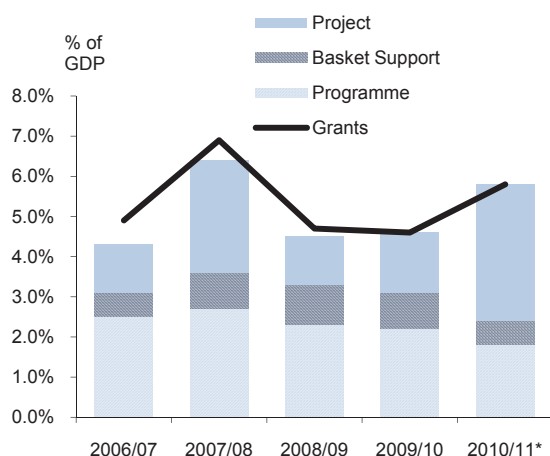
	2004/05 - 2009/10	2009/10 - 2014/15
Domestic revenue/1	3.5	5.6
Recurrent expenditure	-1.1	2.3
Grants	-3.2	-0.9
Financing		
Foreign (net)	1.6	-0.7
Domestic (net)	0.7	-0.9
Development expenditure	1.3	5.5

Source: IMF, MKUKUTA II or MoFEA, World Bank staff calculations

/1: including adjustments

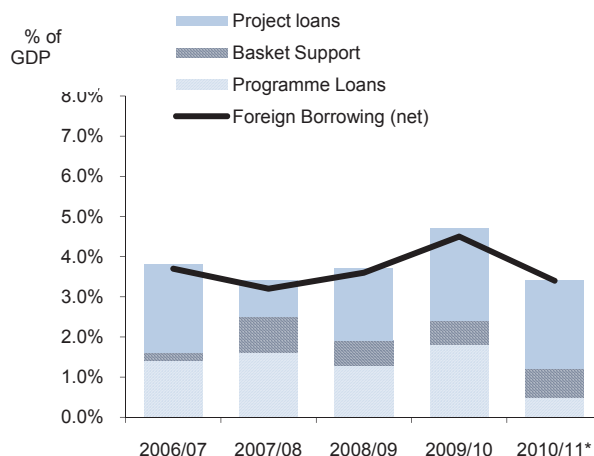
3.10 While foreign aid grants have fallen and stalled recently, external borrowing has increased to support development expenditure expansion. As a percentage of GDP, foreign grants fell over 3 percent in the last five years. Both budget support and project support have declined (figure 37). While project support spiked to 2.8 percent of GDP in 2007/08, it has reduced to around 1.5 percent in 2009/10. Similarly, budget support, including basket support, has dropped to 3.1 percent of GDP in 2009/10 from 3.6 percent in 2007/08. In contrast, external borrowing rose by 1.6 percent of GDP in the last five years and was the main source of the deficit financing. Most recently, both budget and project related borrowing registered small increases in 2009/10, which compensated the declines in foreign grants (figure 38).

Figure 40: Foreign Aid Grants (% of GDP)



Source: RBA 2010, World Bank Staff calculation
 Note: data for 2010/2011 are budget, and data for all other years are actual spending.

Figure 41: Foreign Borrowing (% of GDP)

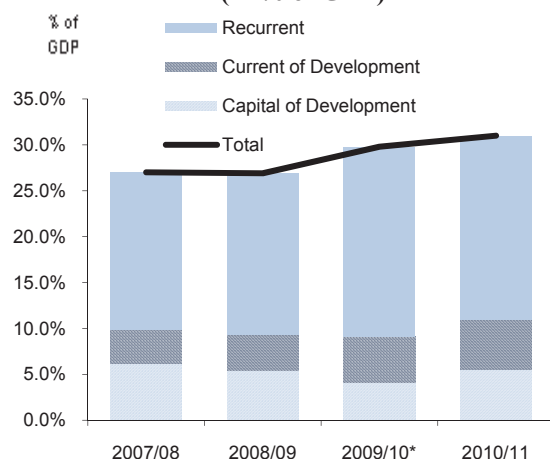


Source: RBA 2010, World Bank Staff calculation

TANZANIA'S DEVELOPMENT BUDGET

3.11 Even though infrastructure remains a main bottleneck in Tanzania, capital expenditure remains a small portion of overall development expenditure in the government's budget (figure 42). Development expenditure as a share of Tanzania's total budget declined from 36.3 percent in 2007/08 to 30.5 percent in 2009/10, though it improved to 35.5 percent in 2010/11. However, capital expenditure as a share of development expenditure has declined from over 60 percent to a little above 50 percent (figure 43). As a result, capital expenditure stands for less than one fifth of total public expenditure in 2010/11, or at 5.5 percent of GDP. This trend is inconsistent with the government's commitment to make infrastructure investment a priority for a broader-based growth.

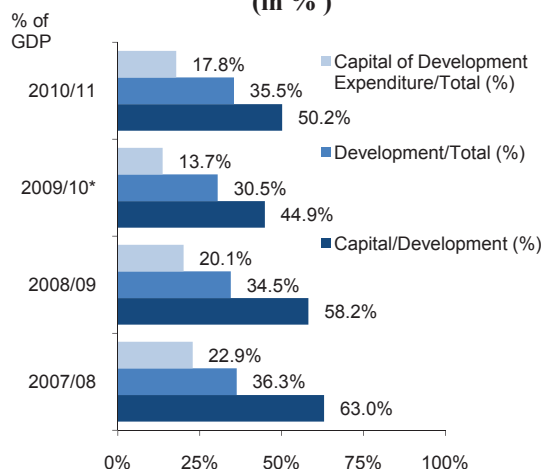
Figure 42: Composition of the Budget (in % of GDP)



Source: MoF, World Bank Staff calculation

Note: Data for 2009/10 have only information from MDAs and do not include information of local authorities.

Figure 43: Composition of the Budget (in %)



3.12 The low percentage of the actual capital component of development expenditures indicates that a large part of development expenditures is spent on current expenditure components of Tanzania’s development programs or on programs that are of a technical assistance or of a recurrent nature. A holistic approach to the development budget and its linkage with growth and poverty reduction (for example, including all program related expenditures) is not undesirable, but it is important to present clearly what is capital investment, what is technical assistance, and what is of a service delivery nature (figure 41).

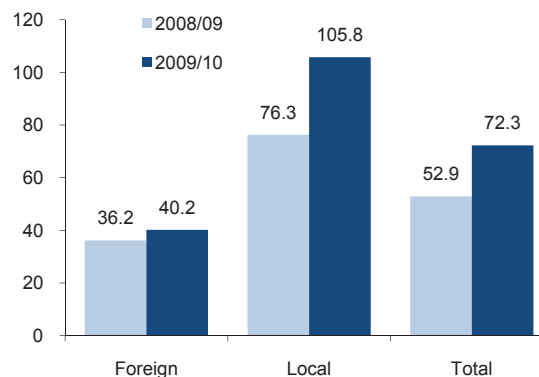
3.13 Clearly, the development budget has evolved to include projects and programs that have a long lasting impact on the efficiency and effectiveness of the government’s own internal operations (technical assistance); those that provide growth enhancing services to its population (service delivery), like extension services; and projects and programs that are of a capital investment nature. Consequently, it will be important for the public financial management systems in use in Tanzania to define and code more clearly what types of programs are to be considered as part of the development budget and subsequently of Tanzania’s public investment program. The current IFMIS and Tanzania’s system of accounts should be the starting point.

Figure 44: Different Types of Public Expenditures

	INVESTMENT Expenditure is an Investment	CURRENT Expenditure is Current
INTERNAL Service Recipient is within the institution	Capacity Building	Administrative Service
EXTERNAL Service Recipient is outside the institution	Capital Investment	Service Delivery

Source: Government of Tanzania – Draft Medium Term Strategic Planning and Budgeting Manual

Figure 45: Execution of Development Budget



Source: RBA 2010, World Bank Staff calculation

3.14 The actual spending of the development budget still deviates significantly from the approved budget, particularly the foreign-funded component (figure 44). Overall, execution of capital budget at MDAs remains poor in 2009/10. Actual spending of capital budget accounted for a little more than 72 percent of the approved budget in 2009/10, a significant improvement from 53 percent in 2008/09. The poor performance is attributable mainly to the low execution rate of the foreign-funded component. The execution rate of the foreign-funded capital budget was as low as 40 percent in 2009/10, which represents little progress. Conversely, the execution rate of the local-funded component rose to 105 percent in 2009/10 from 76 percent in 2008/09, underscoring the overall change in performance. A more detailed analysis of expenditure outcomes against planned budgets for individual ministries in Tanzania reveals that

even though most execution rates stagnated during the period under investigation, the execution rates for infrastructure markedly improved from a meager 39 percent for FY2007/08 to 78 percent for FY2009/10 (figure 45).

3.15 The Development Budget has addressed some of the pressing needs in road infrastructure and health but has reduced its allocations to the energy sector. Figure 46 shows how the resources to six priority sectors have changed over the last four years. The reductions to the energy sector are striking and clearly create a bottleneck in Tanzania’s development, given the frequent blackouts. While this is a well known constraint to growth, the allocations under the development budget to the energy sector were actually reduced. If investments in the sector had been taken on by the private sector then this would not necessarily have been an issue. However, this does not seem to be the case (annex 2), which points to a likely coordination failure at the center of government wherein priorities are well known but budgetary resources needed to address the problems have not been allocated. The existing MTEF process and use within government could be used to better link national priorities with multi-year budgetary resources.

Figure 46: Sectoral Execution of Development Budget

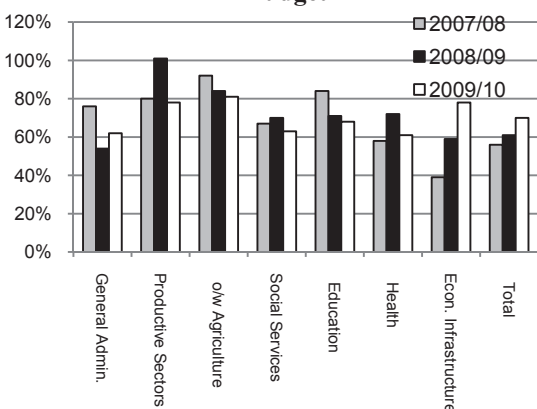
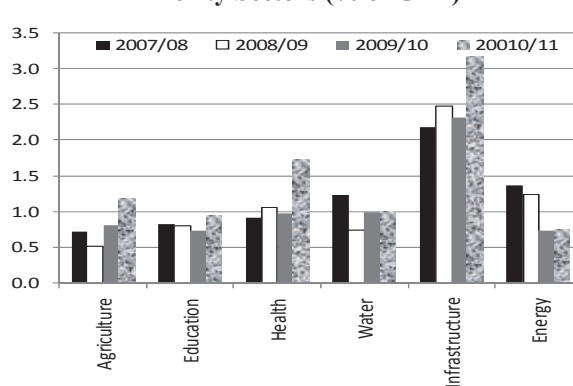


Figure 47: Composition of Development Budget by Priority Sectors (% of GDP)



Source: RBA 2010, World Bank Staff calculation

ISSUES IN BUDGETING FOR DEVELOPMENT IN TANZANIA

Institutional arrangements

3.16 MKUKUTA II emphasizes the need for stronger focus on prioritization of public interventions, both projects and programs. This will critically depend on the establishment of new procedures and processes and strong coordination among the various institutions involved. Currently, there is no clear definition of the roles of the various stakeholders at any level, whether the central (such as MoF and POPC); sectoral (such as sector ministries); or local (such as local government authorities) in public investment management. An essential first step to overcoming potential coordination failures is to agree on an institutional set up that will allow for clarity among the various stakeholders involved.

Box 1: Major approaches of institutional reforms to introduce Public Investment Management (PIM)

In practice, governments should take a holistic approach when introducing PIM that takes into account the existing institutional framework. Approaches that emerge from PIM theories can be grouped in three broad categories, each with a different focus on institutional versus functional changes:

1. The first approach is to create a new PIM institution to ensure that investment management functions are centralized and delivered with clear leadership and accountability. For example, the Canadian government set up a new department, Infrastructure Canada, in 2002 to better implement its infrastructure development plan.
2. The second is to create a new PIM institution whose aim is to guide the strategic directions of investment management while reinforcing the coordination mechanisms of existing agencies responsible for investment management. Ireland adopted this approach by establishing the Economic and Social Research Institute for central planning while charging line ministries with the implementation.
3. The final approach is to create a new PIM function for an existing entity, empowering the entity with extended responsibilities in investment management. The Gateway function of the UK Ministry of Finance (MoF) is a case in point.

Approach I: Infrastructure Canada

1. The reform has been centered around the encompassing infrastructure plan “Building Canada,” as a country-wide, well-funded program that addresses “the nation's most important economic and environmental priorities.”
2. All work in the infrastructure area has aimed to foster knowledge and build capability in the key sectors of project design and management, including appraisal, evaluation and monitoring.
3. Infrastructure Canada has appropriately developed and systematically promoted the methodology of project evaluation, providing detailed instructions, enforcement rules, and appropriate incentives.
4. Through the leadership provided by Infrastructure Canada, the government has promoted information, participation and deliberative democracy of all relevant stakeholders. Such a promotion has been pursued itself via specific mechanisms led by the “National Roundtable on Sustainable Infrastructure.”
5. This has been sustained through successful IT programs such as the Shared Information Management System for Infrastructure.

Approach II: A new PIM institution for PIM strategic directions in Ireland

1. ESRI and the National Plan: The Economic and Social Research Institute (ESRI) was founded with the objective to analyze the Irish socio-economic situation and to formulate a realistic and feasible strategy to achieve the country's development and economic goals in a sustainable framework. For that purpose, it prepared the 2007-2013 National Development Plan, an independent and comprehensive study.
2. Specialized Government authorities: The implementation of the plan actions remains the responsibility of the specialized government authorities, including two regional assemblies.
3. A broad consensus building process with social and business partners on the strategy implementation and monitoring is guaranteed by the National Economic and Social Council (NESC).
4. The council reports directly to the Prime Minister on issues regarding analysis and formulation of socio-economic development strategies.

Approach III: Gateway function of UK MoF

Gateway function is an expanded and enhanced version of the Ministry of Finance's traditional role of ensuring fiscal discipline and public financing control. Its goals are:

1. delivery of value for money from third parties;
2. delivery of projects to time, quality, and cost, realizing benefits;
3. getting the best from the government's estate;
4. improving the sustainability of the government estate and operations through stronger performance management and guidance;
5. helping achieve delivery of further government policy goals, including innovation, equality, and support for small and medium enterprises; and
6. driving forward the improvement of central government capability in procurement, project and program management, and estates management through the development of people skills, processes and tools.

Based on Pasquale Scandizzo and Mauro Napodano 2010, “Public Investment Management: Linking Global

3.17 In the current literature on Public Investment Management, three broad models, each with a different institutional and functional organization, can be identified.¹³ One model focuses on centralization of the PIM functions in a new central institution (the case of Canada); one model assigns the full PIM functions to an existing entity (the UK model); and the third model creates a new PIM institution that guides the strategic directions of public investment management while reinforcing the coordination mechanisms among existing stakeholders (the Irish model). Each of these models assigns different functions to different stakeholders (box 1).

3.18 With the assignment of the planning function to the POPC in 2008, the government of Tanzania has de facto gone the route of the Irish model. Shortly after the elections in 2010, the President tasked the POPC with (i) review implementation of TDV 2025 to determine if its goals, objectives and targets are still relevant today, and subsequently improve upon the vision where necessary, and (ii) prepare a roadmap (Long Term Plan 2011-25) to implement the TDV 2025, subdivided into three FYDPs, with time bound targets and indicators of progress to be delivered by each sector. However, clear demarcation of responsibilities among the various stakeholders, in particular between MoF and POPC, still must be established.

3.19 The government should first agree on a clear separation of functions in the PIM process between MoF and POPC. Even though other stakeholders, such as PMO, line ministries, and local governments, have important roles to play as well, it is important to agree first on the functions that MoF and POPC will undertake. MoF and POPC play critical roles in project appraisal and capital budgeting. The scope and intensity of their engagement can vary, depending on the degree of decentralization and performance budgeting and management being employed. However, even under a high degree of decentralization, these central agencies should take on a number of key functions (see box 2).¹⁴

3.20 The MoF and POPC should jointly design and agree on a decision making process that every public investment project will need to undergo before it will be considered for funding from the budget and/or through public private partnerships (PPPs). This gate keeping process should be an integral part of the project cycle through which each project will need to go. Such a process¹⁵ should include the submission of standardized project information, and it should be rule based. A process like this is currently absent from the project cycle and would allow for better prioritization of projects. MoF and POPC could usefully form a small secretariat that would handle this process.

3.21 Project monitoring is delegated directly to MDAs and local government authorities, while parliament is in charge of reviewing the public sector accounts, including development expenditures. Parliament is organized in three core committees: the Public Accounts Committee (PAC), responsible for central government ministries, departments, and agencies (currently there are 43); the Local Authorities Accounts Committee (LAAC), responsible for local government authorities (currently there are 133); and a total of twenty one Public Organizations Accounts Committees (POAC), responsible for public and parastatal

¹³ See Scandizzo and Napodano (2010).

¹⁴ Partly based on Graham Glenday (2010).

¹⁵ The next section discusses the rationale for a public investment program and the various stages of a project cycle. See also World Bank (2010)

companies (currently about 400). The parliament also comprises 18 subcommittees in charge of scrutinizing sector-wide audit reports and recommendations issued by the Controller and Auditor General (CAG).

Box 2: Roles of Ministry of Finance and a country's institution responsible for national planning

In all governments, the ministries of finance and/or economic planning play critical roles in project appraisal and capital budgeting.

Ministry of Finance (MoF) is responsible for:

1. Overall budget system and coordination of the selection, approval, and financing of all capital and current items entering the budget. This would include the methods for appraising, selecting, and budgeting capital expenditures. Guidelines for project appraisal may be established by MoF either independently or in conjunction with the economic planning agency. These guidelines should cover the local government or private partner or contractor. These guidelines also should cover in sufficient detail the criteria and conduct of the financial, economic, and distributive analysis, including the treatment of risks, social and environmental costs, and benefits. This would include approaches to estimating economic or shadow prices; valuing public sector services and environmental costs and benefits; assessing costs of risk; and handling real price changes, inflation, and exchange rates over a project life. Special guidelines are required for:
 - (a) appraising public private partnership arrangements with a particular focus on the benefit or cost of private participation in a concession, and
 - (b) costing services for regulated sectors or long-term service contracts.
2. Forecasting and raising tax and non-tax revenue, managing debt finance and foreign aid grants. Public revenue forecasting is critical to establishing the availability of funding for both the investment period and the operating and maintenance period of projects and programs.

Economic planning commission/ministry should be responsible for:

1. Macroeconomic and growth forecasting and planning (in conjunction with ministries of finance and central bank);
2. Monitoring, analyzing, and reporting on progress with implementation of a country's national development strategy. The exact modalities of monitoring arrangements should be prepared in conjunction with the central agency responsible for overall economic monitoring and effectiveness of the overall government's budget/program. Often this includes the country's statistical office, Prime Minister's office or its equivalent, and MoF.
3. Coordinating sector plans for projects and programs across sectors;
4. Creating guidelines for strategic planning;
5. Creating guidelines appraisal, implementation, and regulation of projects and programs, whether implemented by a government department, authority, local government, or private partner or contractor. As stated above, MoF should take the lead in preparing these guidelines.

Public Investment Programming

3.22 Tanzania has no Public Investment Program (PIP) that aims to enhance strategic consistency and coordination of public investments within a program based approach.

Tanzania could usefully develop a national public investment program that brings together all the investment projects that fit within its national and sectoral strategies to avoid proliferation of low-impact, unrelated, and small sized projects. A PIP also provides a framework for interaction with donors and channeling aid flows to priority areas.

3.23 **Typically, a PIP includes the following elements** (Allen and Tomasi, 2001): A PIP shows for a period of three to four years the capital and recurrent cost of selected projects, together with the balance of funds required to complete the projects after the PIP period. It is prepared annually on a rolling basis. The selection criteria are as follows:

- The first year of the PIP includes only projects that are included in the budget. The later years provide an indicative list of projects and their estimated cost.
- For externally financed projects, the first year of the PIP includes only projects for which financing has been secured or where negotiations are very well advanced. The second year includes projects for which the financing has been clearly identified, and the third year also includes projects for which the financing source has not yet been identified but is likely to be found.

The PIP covers investment projects financed from domestic sources, externally-financed projects, as well as PPPs.

3.24 **There are a number of risks to the PIP approach.** First, the PIP may contribute to a fragmentation in the budget between recurrent and capital spending and an overemphasis on investments at the expense of recurrent expenditure. Second, unless properly controlled, the PIP can become a wish list of projects, especially in the outer years, with little meaning as a framework for investment budgeting. This also creates a risk that poor projects that were included in the PIP in earlier years move to the implementation stage without effective scrutiny or analysis.

3.25 **To minimize these risks, the PIP should be fully integrated with the MTEF.** In essence, the PIP would be a list of the projects that underpin the MTEF. That implies that the PIP includes only projects that the government expects to undertake. This does not mean that financing should be secured for all projects, even in the outer years. For the first year, the PIP would coincide with the budget and thus be fully financed. For the second and third years, the PIP would correspond to the financing the government expects to be available. Full consistency between the PIP and MTEF would mitigate risks of budget fragmentation and facilitate an integrated assessment of the budget by policy makers, parliament, and the public. A credible MTEF will also provide an increased degree of predictability of resources for the investment projects given its multi-year nature.

3.26 **The inclusion of a so-called project bank for storage of priority project ideas for which funding is not yet available can greatly improve the PIP's effectiveness.** Many countries have institutionalized a project bank that consists of projects that do not fall within the sectoral MTEF ceiling/overall budget envelope but are considered highly relevant for growth and development. If additional financial resources become available, these projects¹⁶ are the first to be included in the PIP and, therefore, in the annual budget. The institutionalization of a project bank would also require a revision of information that needs to be provided to MoF and POPC or, as proposed, its secretariat, which would handle the PIP to be able to analyze its relevance (box 3).

¹⁶ This would also facilitate the ability to seek financing through Public Private Partnerships, as they have the ability to tap capacity of private sector experts in addition to private sector financing.

Box 3: Proposal for a Project Profile and Assessment Form

Criteria	Description ¹	Rating ²
Aim and objective	Discuss link with national strategy and sector strategy; define development objective.	
Economic and social impact on growth on equity on poverty on employment on balance of payments and forex reserves on gender	Quantify if possible; otherwise, indicate direction and beneficiaries.	
Financial information	Identify total investment needs. Indicate cash flow over the lifespan of the project. This should include an estimate of recurrent cost after the project closes. Calculate net present value (NPV), ³ if possible, or cost-effectiveness indicators.	
Staffing implications	Identify the implications for staffing at the central, provincial, or district level, including needed skill level.	
Expected results and impacts: monitoring and evaluation	Propose outcome, output, and input indicators through which the project can be monitored and evaluated.	
Time scale of the project	Time needed for pre-appraisal. Time needed for appraisal. Time needed for implementation. Time needed for impact evaluation.	
Need for any changes in laws and regulations	Identify changes in business climate/ environment	
Proposed project team and implementation arrangements	Discuss team composition and its needed competencies	
Who are the stakeholders/beneficiaries	Identify beneficiaries and group them by direct and indirect beneficiaries	
Alternatives	Discuss why proposed project is the most appropriate way of achieving the project objective	
Positive or negative externalities	For example, discuss any impact on the environment.	
Risk and mitigation	Identify risk and mitigating measures.	

¹ If various options are considered for achieving a given set of objectives, each option can be described and assessed in separate columns.

² Ratings could go from ++, +, 0, -, -- at the profile stage, reflecting the limited and qualitative nature of the information available at that stage. After pre-appraisal and appraisal, the matrix can be updated and more specific and quantitative criteria can be used to assess the project. These can be developed with further technical assistance.

³ The internal rate of return (IRR) can be misleading and should not be used, see H.M. Treasury (2003)

3.27 The PIP and the related project bank would be helpful in discussions with donors on aid commitments. The PIP would be a selection of screened and prioritized projects that fit within the government's absorptive capacity. The PIP would not be a source of project ideas for unexpected resources in addition to what is expected under the MTEF. This should not result in missed opportunities because of a lack of bankable projects. First, unexpected additional aid typically takes some years to materialize, in which case new projects can be developed and the PIP can be adjusted in subsequent years to reflect the additional aid. Second, a project bank

would be a source of ideas for additional projects if the government is confronted with a sudden increase in available resources.

3.28 Although some procedures are in place to guide the preparation of investment projects, these are different across ministries. (Annex 1 offers a discussion on of the budget process and PIM within the Ministry of Energy and Minerals.) The proposed PIP and its management structure are an important first step toward establishing a rules-based process of public investment programming. An essential next step is to develop a PIP policy that should aim to ensure (i) quality of public investments; (ii) coordination among the various actors/institutions involved; (iii) availability of adequate resources to execute the program; and (iv) increased coordination in financing between public and private sources, including the use of PPPs¹⁷. In addition, it should translate the policy into implementation regulations that effectively deal with the aims identified in the policy.

3.29 Critical components of a successful PIP implementation plan include the establishment of new institutions and their respective functions (see above), capacity building and training, and the development of specific procedures and tools for investment budgeting. The government could usefully establish a secretariat, which would consist of staff of MoF and POPC and would provide oversight and guidance to the investment programming process. It could also usefully set up an investment technical team to provide technical support to the secretariat in collaboration with the already established PPP unit. Capacity building and training is needed to enhance skills of government staff involved in investment project development and implementation. Finally, to implement the proposed investment programming process, specific guidance and manuals need to be drafted.

The Public Investment Project Cycle

3.30 The well developed FYDP and MKUKUTA II, are linked to various sectoral strategies but has no central process to review project proposals' alignment with Tanzania's national and sectoral objectives. Each sector ministry develops its public investment priorities on its own without clear guidance from MOF or POPC and allocates its resources accordingly. In addition, the absence of an integrated project database prevents central budgeting authorities at MoF from keeping track of ongoing, completed, and/or stopped projects; therefore, it is virtually impossible to provide standardized project information that could be used to evaluate the impact of projects across the whole spectrum of government.

3.31 The absence of an integrated project database prevents MoF and POPC from assessing operating expenses of public works, maintaining good programming of purchases and contracting out of public works, and determining the programming of operational and maintenance (O&M) expenditures of projects delivered as well as staffing requirements. Currently, sector ministries keep project information in separate manual records without a harmonized information system and array of monitoring indicators. An effort should be made to start collecting standardized project information, as an up-to-date record and status of public investment projects provides the information necessary for budgetary authorities to be able to

¹⁷ The Government has prepared PPP regulations that include detailed evaluation procedures. Many of them overlap with the procedures proposed in this PER.

prioritize and reallocate budget allocations across sectors and MDAs and reconcile any gaps in information during the elaboration of budget ceilings.

3.32 A good planning process and organization in a sector, its programs, and institutional activities is steered by sector ministries and carried down across implementing units. Sector strategy plans and policy papers are translated into an MTEF. Sector ministries prioritize public expenditure (inputs) according to their respective sector strategies and align to policy objectives (planned outputs) and programmatic goals (outcomes). A decentralized planning organization is carried through regions and district levels with implementing units reporting to a higher level up to the respective program manager responsible for overseeing performance. These capabilities are in place for the ministries of health, education, and agriculture.

3.33 Tanzania's central agencies responsible for planning and budgeting, POPC and MoF, could usefully put in place an evaluation and monitoring arrangement for projects that build on sectoral experiences. This process should allow the government to better observe what its projects are accomplishing and lead to a more rule-based and standardized manner of scrutinizing the relevance of proposed and ongoing projects. Various countries, among them Chile¹⁸ and South Korea, have developed elaborate processes for this purpose. Tanzania might aim for such high quality institutional arrangements, but it should start out simply taking into account its own capacity limitations and build up its processes as its capabilities improve.

3.34 A first step would be to agree on a project cycle that would allow appropriate scrutinizing of projects. Shows a suggested project cycle for Tanzania. The proposed cycle would vary by size and may need to be adjusted for the specific character of the sector or project. An indicative time for projects to go from initial concept to implementation is two to three years for large projects. The cycle and all its stages should be clearly laid out in MoF and POPC regulations and guidelines, including possible variations related to size or characteristics.

3.35 The project cycle starts with a line ministry, agency, district, or public enterprise formulating a concept for a project.¹⁹ The concept for the project should meet several criteria, including:

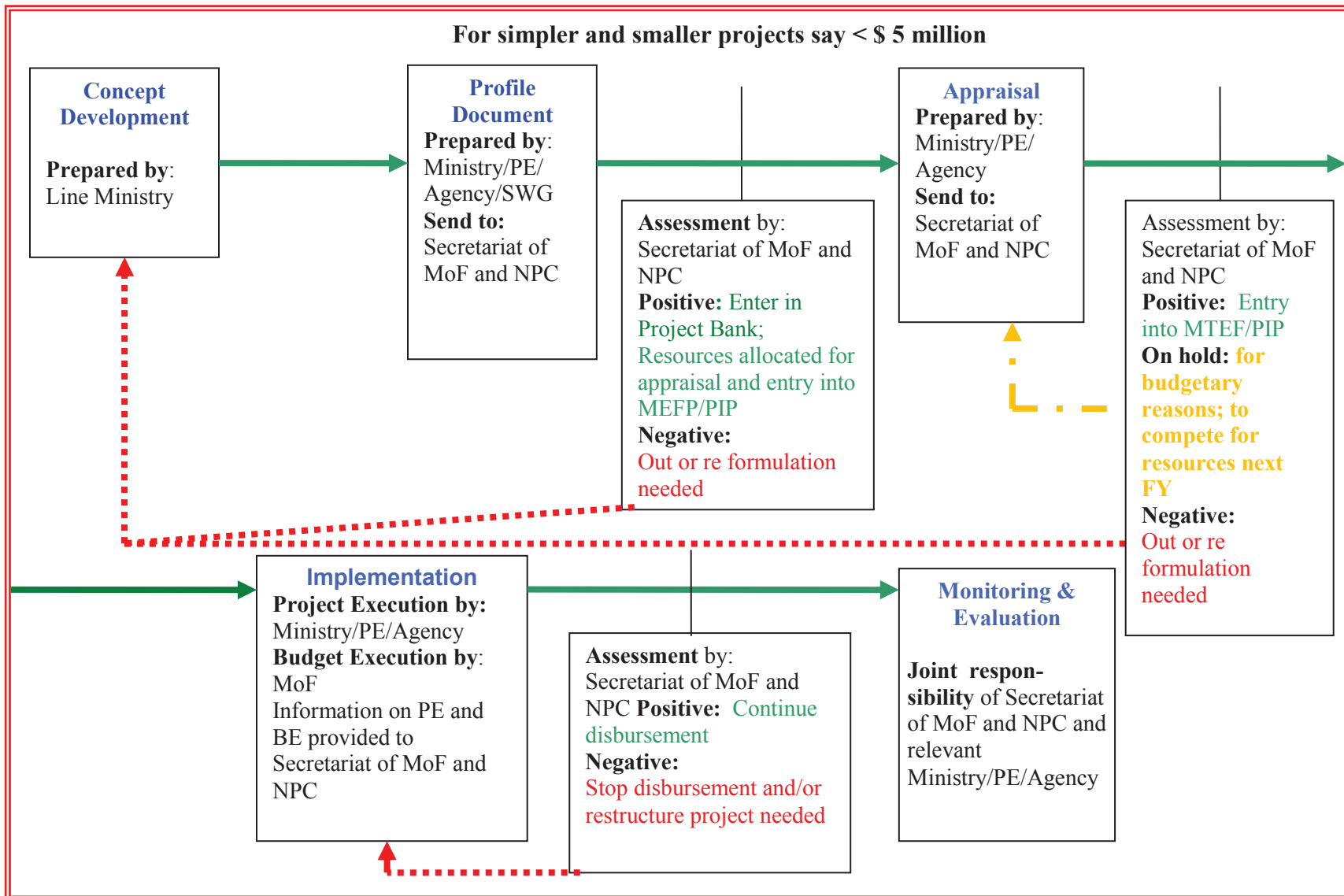
- Meeting needs consistent with sectoral and national objectives. In particular, the project ideas should reflect the MKUKUTA II and Sectoral Investment Plans (SIPs).
- Negative side effects (for example, on the environment) should not exceed the benefits of the project.

3.36 It is good practice to consider a range of options to meet the stated objectives, in particular the option that requires the least action (and therefore, typically, cost) to achieve them (see the H.M. Treasury, 2003). A short list of options may then be created.

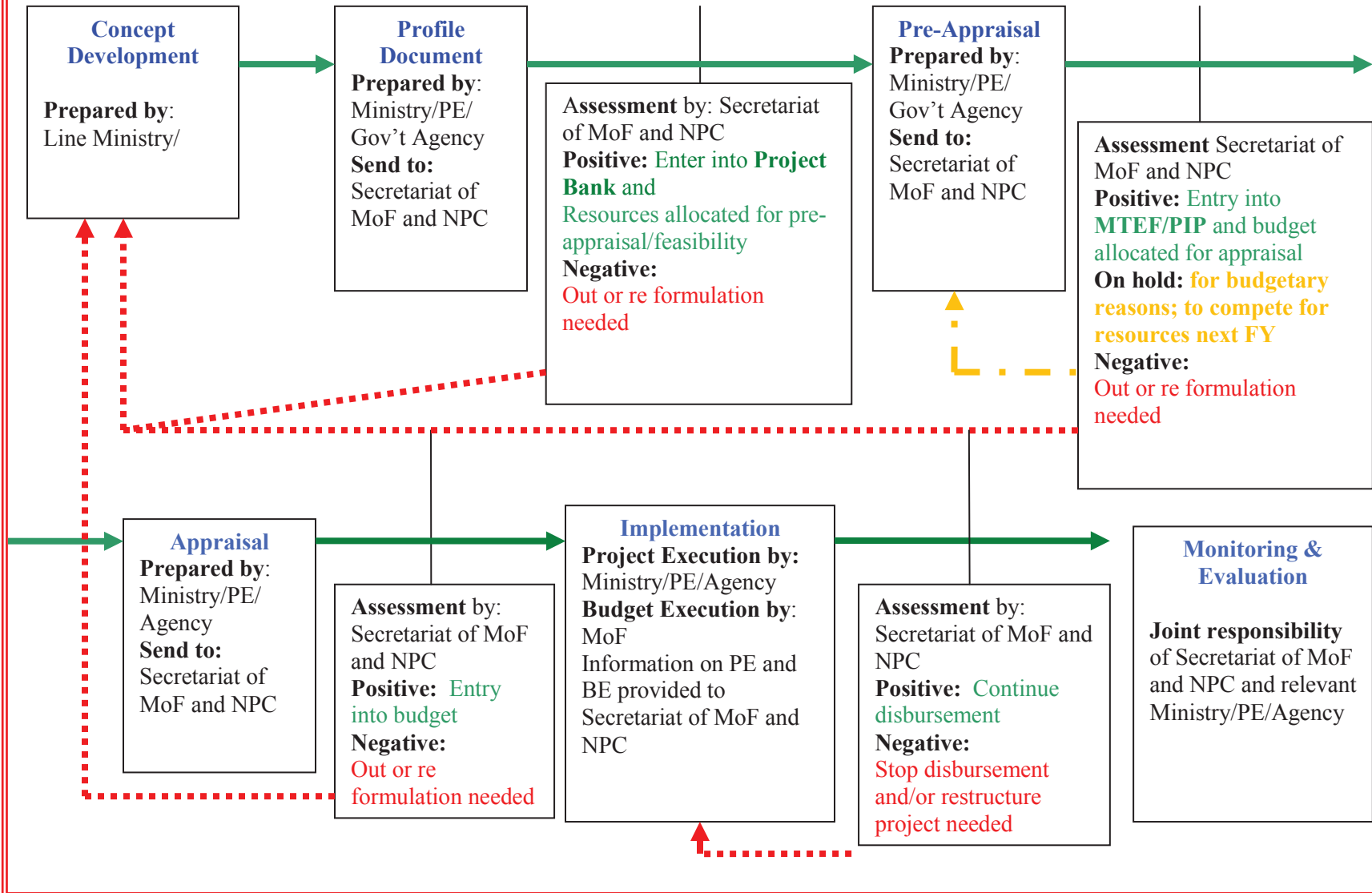
¹⁸ A note outlining the appraisal process in Chile is attached as Annex 2.

¹⁹ For a public enterprise, the motivation for the project may be commercial, that is, achieving a profit.

Figure 48: Proposed Schematic Public Investment Project cycle



For complex and larger projects, say > \$5 million



3.37 The next step is to develop a project profile in the structure of a project assessment form and include the project in the project database. To be included in the project database, a standard form (box 3) is completed that spells out the objectives of the project, how they will be met, the expected timing of the project, the budgetary cost, the profile of cost and any revenue over time, needs for any changes in laws and regulations, impact on staffing (for example, need to hire a project team), an estimate of the recurrent cost after completion of the project, and any positive or negative side effects of the project (for example, on the environment).

3.38 The project profile should be included in a project database that lists all projects under consideration and implementation. The project database is a critical instrument for managing public investment projects. It will reveal, from inception, which projects are under consideration and implementation, and at which stage of development the projects are. This will provide analytical information on projects and their characteristics, but also will enable MoF, POPC, and other stakeholders to track the pipeline of projects as it moves toward completion. To reiterate, the project database is more extensive than the PIP and includes projects that are not yet approved for the PIP, as well as projects that have moved into the implementation stage.

3.39 For all projects, MoF and POPC jointly should assess whether the project meets the criteria when the profile is completed. In other words, MoF and POPC jointly verify whether the project meets the target criteria, the appropriateness of stated objectives, affordability and cost-effectiveness, and absence of substantial negative side effects. This is just a preliminary and qualitative assessment the project has not yet been fully appraised. But such an assessment at an early stage will prevent poor projects from moving on to the appraisal stage, which can be quite costly for large projects. If a project is rejected, it can again go to the concept stage or be abandoned and dropped from the project database.

3.40 A large project requires diligent pre-appraisal while a smaller project can directly move to the appraisal stage. An appropriate threshold for large projects seems to be US\$5 million (the typical cost of a hospital is US\$6 million²⁰). It may be appropriate to vary thresholds by sector. Care should be taken that projects are not designed to escape the threshold for large projects in particular, MoF should issue regulations against trenching of projects.

3.41 In case of a large project, if MoF and POPC jointly allow it to pass through, it moves on to the pre-appraisal stage and resources should be centrally allocated to undertake pre-appraisal. Upon approval, an allocation will be released from a study fund to finance the pre-appraisal. (There is no study fund at present, but establishing one using government resources or donor aid should be considered²¹.) Currently, this stage is typically undertaken by a contractor. If the pre-appraisal is concluded successfully and the project

²⁰ It seems that a project of such complexity should be subject to a higher form of scrutiny than a clinic, which costs less than US\$5 million, and construction of which has become standardized.

²¹ A concept note outlining how and when this study fund would be used should be prepared as a guide to replenishing and ensuring proper use of its available resources.

continues to meet the criteria, MoF includes it in the MTEF and PIP.²² This implies that the project is considered affordable over the three- to five- year planning period. Both the capital and recurrent cost of the project are to be included in the MTEF and PIP. In addition, special care should be taken to ensure that the MTEF accurately reflects the recurrent cost of operating the investment asset after completion of the project (that is, once a hospital is finished, it needs to be staffed, equipped with medical disposables such as syringes and medication, and have water and electricity).

Box 4: Cost-benefit analysis: a primer

Cost-benefit analysis assesses the costs and economic benefits of a project and reduces them to a common denominator. If benefits exceed costs, both expressed in terms of present value, then the project is acceptable; if not, the project is rejected. Benefits are defined relative to their effect on the fundamental objectives, while costs are defined relative to their opportunity cost, which is the benefit forgone by not putting these resources to the best alternative use. By doing so, cost-benefit analysis seeks to ensure that no alternative use of the resources consumed by the project would secure a better result from the perspective of a country's objectives. Thus, if X defines the benefit from the project in year t , C defines the cost today, r is the discount rate, and n the number of years that the project is expected to deliver benefits, then in very simple terms, a project is selected if:

$$\sum X(t) / (1 + r)^t - C > 0$$

Economic analysis is similar in form to financial analysis in that both assess the profit of an investment. The concept of a financial profit, however, is different from that of a social profit of economic analysis. The former identifies the money profit accruing to the project-operating entity, whereas the latter measures the effect of the project on the fundamental economic and social objectives. These different concepts are reflected in the different items considered to be costs and benefits and in their valuation. Thus, a money payment made for wages is by definition a financial cost, but it will be an economic cost only to the extent that the use of labor in this project implies some sacrifice elsewhere in the economy with respect to output and other objectives. Conversely, if the project has an economic cost which does not involve a financial flow—for example, because of environmental costs—this does not constitute a financial cost. Economic costs and benefits are measured by "shadow prices," which may approximate market prices in well functioning market systems. However, imperfect markets—like those characterizing economies in transition—typically reflect a divergence between them. The key requirements for social cost-benefit analysis are: (i) specification of the costs and benefits; (ii) valuation of costs and benefits; (iii) choice and formulation of constraints; (iv) treatment of risk and uncertainty; (v) choice of the rate of interest for discounting future costs and benefits; and (vi) choice of a decision rule for accepting or rejecting projects.

It is, however, important to realize that not all projects warrant a full cost-benefit analysis or lend themselves well to cost-benefit analysis. For example, traditional investment projects, such as electricity generation plants, hospitals, and or water treatment facilities, are good examples for which cost-benefit analysis is an excellent tool to assist the decision maker regarding the project net economic benefits. However, it is often seen as too difficult to carry out cost-benefit analysis for technical assistance projects, or it is not seen as cost-efficient to do cost-benefit analysis for projects below a certain size.

Source: Lyn Squire and Herman van der Tak, 1975, *Economic Analysis of Projects*, Baltimore and London, in the World Bank report "Russia: Towards Improving the Efficiency of Public Expenditures" (2001).

²² Cabinet approves the MTEF but not the specific projects underlying the projection for capital spending. Therefore, the proposed PIP is, in effect, an agreement between MoF and line ministries, agencies, and public enterprises of how the sectoral ceilings on capital spending in the MTEF are to be met.

3.42 **For all pre-appraised large projects and small projects that have passed preliminary assessment, the next stage is appraisal.** For large projects, this includes extensive cost-benefit analyses (box 4) or cost-effectiveness studies as well as technical feasibility studies, environmental impact assessments, and so on. Costly appraisals should be funded by their own line item in the budget for enhanced transparency and scrutiny by parliament. Since large projects will be under development for several years, this requirement should not delay the project. For smaller and more routine projects, such as a health clinic, the appraisal may consist of a detailed design and cost estimate based on standards and similar projects implemented previously. Appraisals for smaller projects can be paid out of the study fund and do not need a separate budget line item.

3.43 **At the moment, almost all projects lack an in-depth feasibility or appraisal phase.** Various ministries do make an attempt to rationalize and prioritize their projects, but methods used are often indicator-based and do not allow for cross-sectoral comparisons. This makes it necessary to standardize methods used to appraise projects, in particular the methods used to analyze the benefits and costs of a project. The importance of the appraisal process should not be underestimated. There is abundant evidence, in particular from World Bank projects, that adequate quality at entry, which covers identification, pre-appraisal, and appraisal, is critical for successful project outcomes (box 5).

Box 5: Importance of quality at entry and economic analysis for the success of a project

An important question to ask when undertaking project appraisals is: What are key determinants of project performance? The World Bank undertook various studies to assess the effectiveness of its own portfolio¹. In the 1990s, to evaluate the impact of quality of entry on project performance, the World Bank's Independent Evaluation Group (IEG²) examined over one thousand projects and analyzed the impact of quality at entry on project performance. (Quality at entry includes satisfactory completion of a project's identification, preparation and appraisal phases of a project for a precise definition of these concepts). Clearly, projects that had adequate quality at entry processes fared much better than projects that did not (see World Bank (1997) (table 1).

Table 1: Importance of quality at entry

		Quality at Entry	
		Adequate	Inadequate
O u t c o m e s	Satisfactory	80%	35%
	Unsuccessful	20%	65%

Further econometric analysis, which focused on the appraisal part of quality at entry, shows that if economic appraisal of a project has been poorly done prior to approval, the probability that a project will perform unsatisfactorily by the third year after implementation has commenced is seven times higher than that of a project with adequate economic analysis. By the fourth year, the probability of failure of a poorly analyzed project is 16 times higher than the corresponding probability for a project that has undergone adequate economic evaluation (Belli and Pritchett, 1995).

¹ See for example Belli and Pritchett (1995); World Bank (1996, 1997, and 2010); Vawda, Mock, Gittinger, and Patrinos (2003); and Jenkins (1997).

² At the time the studies quoted were undertaken, this group was called Operations and Evaluations Department (OED).

3.44 **After the project successfully completes the appraisal stage, MoF assesses whether it can be included in the following year’s budget.** If more projects have completed the appraisal stage than can fit into the budget, a choice has to be made as part of the overall budget allocation process, based on which projects meet the most urgent needs. After the project is included in the budget, it will move on to implementation and, after it is completed, to the operation and evaluation stage. The proposed database should also allow for the monitoring of progress with each project and be able to flag when projects are delayed. A first step could be to take stock of ongoing projects and just completed projects to understand better issues of implementation. Currently, this information seems to be scattered around the various line ministries responsible for implementation and not available at the center of government, for example within MoF and POPC.

3.45 **The responsibility for the project cycle rests largely with the relevant line ministry, agency, district, or public enterprise.** MoF and POPC have an important task in operating the “gateways” (for large projects, the gateways are: (i) before the pre-appraisal stage, (ii) at inclusion in the MTEF and PIP, and (iii) at inclusion in the budget; for smaller projects, only the second and third gateways are operated by MoF and POPC). In addition, MoF and POPC will need to provide guidance, as well as technical and capacity building support, to the organizations implementing the proposed project cycle.

3.46 **A phased approach for improving quality at entry is necessary given the current level of capacity at the central and line ministries and their agencies.** At the moment, a significant number of projects are prepared by donors. However, this can be expected to decline as domestic resources are financing an ever increasing part of the development budget and thus projects. In addition, many line ministries outsource the preparation and sometimes even the evaluation of those projects to consultants. It is important to rebuild this capacity, but this will require time and a revision of the current guidance provided to teams preparing projects. These guidelines should also take into account the fact that many proposals are being prepared and evaluated by external consultants whose reports are to be examined by government officials.

CONCLUSIONS AND KEY MESSAGES

3.47 **Tanzania has launched several well thought through strategic plans, notably TDV 2025, FYDP, and MKUKUTA II, but it is unclear what role each of them is to play within the national and sectoral planning processes.** MKUKUTA II serves as the new MoF poverty reduction strategy, and the ministry’s poverty eradication department is working out an implementation plan. At the same time, the President recently instructed the POPC to develop a 15-year strategic plan (and, within that, a five-year strategic plan) for his administration as a means to reach the goals set forth in Vision 2025. In addition, most sectoral ministries have developed their own medium-term strategic plans. It is important to bring order to this web of planning exercises.

Strengthen the strategic planning processes	
PRIORITY POLICY RECOMMENDATIONS	SEQUENCING
Define clearly the role of each strategic plan, Vision 25, MKUKUTA II, Medium Term Development Plan (5 years), Long Term development Plan (15 years), and MKUKUTA II strategic implementation plan and their roles in the various sectoral development plans.	<p><i>Sequencing:</i> As soon as possible, but no later than June 2012.</p> <p>Much of this could be resolved during the discussions on the role of POPC versus MoF, and communicated by the Planning and Budget Guidelines 2011/13 to the sector ministries and other levels of the government.</p>

3.48 **Even though a web of national strategies exists, no central public agency was seen, until recently, as in charge or taking charge of its implementation.** Recently though, the President has tasked the National Planning Commission with making these strategic plans operational. This is a welcome development. However, without a uniform public investment management process for the whole of government and data on each project, it will be extremely complicated to ensure that the high impact projects will be undertaken and have their intended impact on growth and poverty reduction. The government has realized this shortcoming and intends strengthen its ability to prioritize its interventions.

3.49 **To be successful in the intended sharper focus on prioritization across the whole of government, the authorities need to assign clear roles for the various central agencies, MoF and POPC that have a role to play in this process.** Currently, each of these three agencies is acting on its own mandate, issued directly by the President or embedded in Tanzania’s laws and regulations. It will be important to agree on the roles and responsibilities of POPC and MoF, respectively, in the PIM process and come to a common understanding of what these two key institutions will and will not do. In addition, it could be worthwhile to set up a secretariat in which both MoF and POPC are represented, that will coordinate the overall process of project selection, evaluation (ex ante and ex post), and monitoring of project implementation.

Strengthen the PIM institutional set up	
PRIORITY POLICY RECOMMENDATIONS	SEQUENCING
Agree on responsibilities of MoF and POPC, respectively, regarding planning, evaluation of projects, and monitoring their progress.	<p><i>Sequencing:</i> As soon as possible, but no later than June 2012, given the need to start fully implementation of the new FYDP in FY 2012/13.</p> <p>The two institutions could usefully lay down the arrangements in a Memorandum of Understanding (MoU). However, note that this might require legal changes as well.</p>
Reorganize MoF and POPC in accordance with the agreed mutual responsibilities.	<p><i>Sequencing:</i> Between June 2012 and September 2012. This might require some of the units within MoF to move to POPC; the Poverty Eradication Department might be better placed within POPC.</p> <p>Note that this might require legal changes as well.</p>
Agree on (i) how to structure the project cycle that each public investment projects will have to go through and (ii) the creation of a secretariat handling this process.	<p><i>Sequencing:</i> Between June 2012 and September 2012. First agree on the structure of the project cycle (figure 9) and how POPC and MoF will jointly support it (preferably through a joint secretariat). Second, agree on the form of the project profile and assessment form. Third, agree on what type of project will go through the simpler cycle and which will go through the extensive cycle. Fourth, agree on how to fund the feasibility studies and the (pre-) appraisals of the projects going through the extensive cycle.</p>

3.50 To be able to analyze the effectiveness and efficiency of Tanzania’s public investment program (PIP), basic information about its costs, its outputs, and its outcomes must be collected and analyzed centrally. Currently, the MoF collects expenditure data on the development budget, but no other information about Tanzania’s public investment program is available centrally at the MoF, the POPC, or at the Office of the Prime Minister (PMO). The line ministries, most of which do collect information of their projects, receive little or no guidance from central ministries on how to prepare, evaluate (ex ante or ex post), or monitor their projects.

3.51 Standardized and uniform information needs to be centrally collected on each project to allow for prioritization of Tanzania’s scarce public resources across the whole of government. This could be greatly facilitated through the instigation of a process that each public investment project will need to complete before being incorporated in the country’s MTEF and annual budget. Such a process should allow for various evaluation points at which its viability is checked by the central agencies and, when it is found to lack the required impact or the information needed to make such a judgment, is sent back. This process could vary with the size of the projects, but the central agencies will need to make an explicit decision about the viability of the project before it is granted inclusion in the MTEF and annual budget. Currently, these decisions are basically left to the line ministries, which are well suited to prioritize within their own sector but not for the government as a whole.

Strengthen the information gathering to allow for prioritization of projects across the whole of government	
PRIORITY POLICY RECOMMENDATIONS	SEQUENCING
Design a project database that collects information throughout the whole project cycle: (i) collects information on inputs, outputs, and outcomes so as to be able to analyze efficiency and effectiveness of each project, and (ii) collects information about duration of each project such that judgments about value for money of each project can also be made	<i>Sequencing:</i> Once the structure of the project cycle has been decided, this database should be designed ASAP and should and could usefully build on existing reporting taking place at the sector level.

3.52 **Last but not least, it will be important to phase the implementation of the proposed improvements as capacity gets built** and to focus initially on those projects or sectors where larger projects are taking place and/or where large improvements in effectiveness can be expected through a more rule based system of project appraisal. The reader should be aware that this policy note has focused squarely on how to improve the coordination and decision making process at the center and as such on the quality at entry part of the project cycle. It has not delved into the implementation and ex post evaluation phases of the public investment cycle, not because they are not important, but because one expects that once uniform information has been gathered, these issues can be better analyzed and more informed improvements proposed²³.

Design and implement a capacity building program that supports the updated PIM processes	
PRIORITY POLICY RECOMMENDATIONS	SEQUENCING
Design a capacity building program that (i) prepares manuals that inform the various steps in the new project cycle; and (ii) builds capacity at the center first, then at the line ministries and central agencies, and last but not least at the decentralized level of government.	<i>Sequencing:</i> This capacity program should be initiated once the project cycle's structure has been defined, the delineation of MoF and POPC responsibilities is clear, and the consequences for project information to be provided and analysis to be undertaken are determined. This could usefully be targeted to start in the fall of 2011.

²³ Clearly MoF is aware of these issues, as it has recently set up a productivity unit that is to gather information about government expenditure programs and investment projects.

REFERENCES

- Allen, R., and D. Tomasi, 2001, *Managing Public Expenditure: A Reference Book for Transition Countries*, OECD.
- Belli, P., and L. Prichett, 1995, "Does Good Economic Analysis Improve Project Success?" Mimeo, Operations Policy Division, World Bank.
- HM Treasury (U.K.), 2003, *The Green Book*, available at <http://greenbook.treasury.gov.uk/>.
- Jenkins, G. P. (1997), "Project Analysis and the World Bank," *American Economic Review*.
- Rajaram, A., T. Minh Le, N. Biletska, and J. Brumby, 2010, "A Diagnostic Framework for Assessing Public Investment Management," Policy Research Working Paper no. 5397, World Bank.
- Scandizzo, P., and M. Napodano, (2010), *Public Investment Management: Linking Global Trends to National Experiences*; VDM Verlag, New York and London.
- Tak, van der H., and L. Squire. (1975), *Economic Analysis of Projects*, Baltimore and London.
- Vawda, A. Y., P. Moock, J. P. Gittinger, H. A. Patrinos, 2003, "Economic Analysis of World Bank education projects and project outcomes," *International Journal of Educational Development*.
- World Bank, 1997, "Evaluation Results: Volume II, Operations Evaluations Department, World Bank.
- World Bank, 2006, *Appraisal of Public Investment: Chile*, PREM Note, World Bank

ANNEXES

Annex 1: Budget Process and PIM Within The Ministry of Energy and Minerals

Summary

Good PIM practices and processes within the Ministry of Energy and Minerals (MEM) are hampered by drastic cuts in annual budgets, more predominantly in public investments in rural electrification. This has led to slow budget implementation, and uneven access to power services and economic growth rates and little impact in poverty reduction across Tanzania.

Background

Tanzania's economic management reforms have improved economic performance markedly, with growth exceeding 7 percent in recent years and end-year inflation kept in single digits despite the global downturn. Demand of electricity has increased sharply by 12 percent on average every year and Eskom and other cash-strapped power generation companies seek to build new infrastructure to meet the country's electricity demand and prevent a repeat of the 2008 power crisis, which cost the economy billions of shillings.

Budgetary reforms, on the other hand, have improved resource allocation and fostered better management and accountability of public resources within the Ministry of Energy and Minerals (MEM). The introduction of cash budgeting, coupled with ministry-wide use of an Integrated Financial Management System (IFMS), has improved fiscal discipline. Expenditure management has improved within MEM, and budget execution can be monitored now almost in real time with the IFMS. Further improvements are needed, however, to make cash budgeting more flexible, especially by making quarterly releases to all projects and spending units as opposed to the priority sectors only. Integration of all donor assistance to the budget should also enhance transparency and accountability of all budget resources through government processes. The budget reforms undertaken through the introduction of Public Expenditure Reviews (PERs) and Medium Term Expenditure Framework (MTEF) have been particularly useful in fostering wide participation of stakeholders in the budget process. These reforms have strengthened the links between energy sector policies and resource allocation, providing valuable analysis and feedback on budget execution that has improved resource use. These processes, however, can be improved further by enhancing government ownership of the processes and expanding their coverage to include all sectors of the economy and improve budget formulation, execution and oversight at MOF.

KEY BUDGETARY REFORMS

Three main budgetary reforms have been enunciated in the past decade: cash budgeting, public expenditure reviews (PERs) and Medium Term Expenditure Framework (MTEF).

Cash Budget – Reform aimed at improving expenditure management

Tanzania has maintained a cash budget system for expenditure management since FY 1997/1998. The system, which is managed by the Ministry of Finance (MOF), limits aggregate expenditure in a month to average revenue collection in the previous three months plus program aid. Ministry exercises this control by allowing vote holders to spend monies from their votes only to the amount it releases every month. Priority sectors get their releases every quarter.

The cash budget system has improved fiscal discipline by allowing continuous adjustment of expenditures on other non-salary expenditure items to the resource stream. Monthly ex ante control is still desirable since information on budget execution is not timely enough for adjustment and the cash budget system helps to prevent over-commitment and overspending (above the appropriation amounts) by spending units. The cash budget system is also credited with imparting realism to the budget-making process by taking away incentives to inflate revenue estimates²⁴. In addition, according to the FY 2007/08 Public Expenditure Review (PER), the cash budget system has led to increased realism in MEM's expenditure estimates. The PER FY 2007/08 found, for example, that the gap between actual and budgeted expenditures on operations and maintenance (O&M) decreased after the institution of cash budget. Further, given government policy to move toward a balanced budget, cash budgeting has been a useful instrument for controlling deficits. According to IMF and World Bank observations, cash budget has been a credible indicator of government's intentions to run a responsible fiscal policy.

Despite notable improvements discussed above, cash budgeting has several weaknesses. First, the cash budget has well known costs arising from low predictability of resources for the vote holders. Usually, the resource envelope faces large unpredictability, particularly with regard to external assistance. Domestic revenue levels have been fairly predictable.

Public Expenditure Reviews (PERs)

The budgeting process is open and participatory in nature. The PER process began in 1997. Its main objective is twofold: First, to provide support to the budget process and budget management. Second, to provide feedback on public expenditure and management issues to government and other stakeholders through external evaluation. The PER working group, chaired by the Ministry of Finance, provides overall leadership to the process. The external evaluation work is carried out under the World Bank leadership.

²⁴ Budget makers would inflate revenue estimates when they want to theoretically provide for all demands (often inflated) of spending units. Against the fictitious high revenue, units could spend during the year thus resulting in higher than designed deficit when revenue did not materialize.

The PER has opened up the budget process to a wider participation by government, non-state actors and donors. Evaluations and studies conducted under the PER process shows that the dialog between the MEM, donors, civil society, and the Ministry of Finance during the budget formulation process has been significantly enhanced. The PER process provides a forum for exchange of views among key stakeholders at the sector as well as at the macro levels. At the grassroots level, the local government budget process begins at the community/village level where plans and resource requirements are developed in a participatory framework. Community plans and resource requirements are synthesised at the ward level and onward to the district level.

The PER is partly achieving its intended objectives in that it plays a critical role in enhancing efficiency and accountability in the use of budgetary resources. The PER has instilled transparency in the budget process and is acting as an arm's length watchdog for any malpractice by spending units. However, the PER process has often been criticized for being a donor-driven process. Critiques allude to the observation that whoever funds the PER studies and evaluations, controls the process. Since donors play key role in funding the studies and evaluations, the PER process appeared to be donor-driven. In recent years, however, government ownership has increased notably with GBS and SPSP funds had become more under the control of Accountant General monitoring and reporting authorities, thereby implying higher prospects for its sustainability.

Medium Term Expenditure Framework (MTEF)

MTEF in the Ministry of Energy entails planning in a three-year perspective. The MTEF links the budget process to MKUKUTA and Poverty Reduction Strategy (PRS) and is aligned to the sector's performance budgeting, whereby the cash management systems make quarterly allocations to identified priority activities as identified by the sector strategy plan²⁵. In this regard, the sector strategy is focused on priority projects and activities and reflects funding constraints. The mainstreaming of the sector strategy plan in the MTEF has facilitated higher expenditure shares to be directed toward priority areas such as power generation and transmission projects.

In a systematic framework, the sequence of activities in the MTEF process is as follows:

- Formulation of the Budget Guidelines Committee
- Revenue and expenditure estimates preparation
- Final phase of budget preparation
- Budget execution
- Monitoring and control

The MTEF process has included councils with effect since 2003/04 after the harmonization of the central and local government's financial years. Tanzania's first MTEF covered Fiscal Years 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

²⁵ Performance budgeting was introduced in 1998, and was first applied to the PRS-related MDAs. It was subsequently made a legal requirement through the Public Finance Act 2001 (Article 18.1(b)).

planning and the budget process. Although MOF credits the RPFB with having introduced multi-year budgeting linked to a macro-fiscal framework, in practice it had suffered from a number of limitations, including:

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 (still with uncertainties after the separation of economic affairs formerly under the MOFED and the redefining of the Planning Commission) and the Recurrent Budget (under the MOF).

Because the Planning Commission led the RPFB exercise, it was perceived as being focused primarily on the Development Budget and consequently failed to contribute to better prioritization of recurrent spending.

By the time the MTEF was introduced, Tanzania had already made considerable progress toward fiscal stabilization and developing a realistic macroeconomic framework for budget planning—in part due to reforms that began in mid-1980s. This was aided by the operation of a cash budget, which resulted in in-year corrections if the framework proved unrealistic.

The main objectives of introducing of MTEF in Tanzania were:

- To provide a broad budgetary strategy within which the annual budget could be prepared;
- To strengthen links between sector policies and resource allocations; and
- To provide a mechanism through which analysis of budgetary performance could be fed back into the budget planning process.

The MTEF has achieved credibility with Cabinet, line ministries, and other stakeholders. The MTEF is also seen as a key instrument in ensuring effectiveness in the use of public resources. In this regard, the MTEF has fostered a strong link with the PER process. It has facilitated consolidation of responsibilities for public expenditure planning and management, particularly under the strong leadership of the Ministry of Finance. In addition, the introduction of Integrated Financial Management System (IFMS) has greatly enhanced MTEF viability by strengthening budget execution and accountability of resource use.

Lately, the MTEF process has been comprehensive enough in that it extended its coverage to all sectors, including energy and minerals. This entailed the establishment of Sector Working Groups (SWGs) under MTEF. It is recommended, however, to commence the preparation of MTEF much earlier in the first half of the fiscal year so as to give ample opportunity for Cabinet and Parliamentary Committees to review the MTEF documents and provide feedback. Also, proposed MTEF Sector Expenditure Strategies should incorporate detailed guidance to Local Governments on resource allocation and management that is consistent with the realization of sector policies and strategies.

KEY REFORMS IN PUBLIC INVESTMENT MANAGEMENT PROCESSES

Project screening

Problems concerning strategic guidance persist in the energy sector: MKUKUTA II lacks focus on electricity and related activities necessary so that economic growth and poverty reduction can be tackled on a sustained manner. A sector working group (SWG), however, exists as well as a comprehensive sector strategy plan.

Energy projects are screened on the basis of a master plan (such as the Backbone Project for Electricity V) within a multi-DP funding arrangement.

Project selection

A Development Committee exists within the Ministry of Energy and Minerals (MEM), which is responsible for determining the relative importance of projects recommended in terms of prioritization and financing.

Cost benefit analyses and other similar studies are undertaken for most projects (for example, rural electrification).

A project database exists, as well. It is organized by sub-sectors (petroleum, electricity, TEDAP, rural energy), and provided with information on source of funding, budget estimates and actual, stage of projects (ongoing, completed, stopped).

Project implementation

Throughout the year, at the beginning of every quarter, MEM prepares and submits to MOF progress reports on financial commitments entered into and activities undertaken. This includes progress toward target achievement in the previous quarter together with an action plan for the quarter. Likewise, MEM presents these reports together with the next quarter action plan in support of its release requests.

An overview of MEM's budget for the past few years presents low rates of budget releases and budget execution with respect to expenditure estimates. Foreign financing planned in the budget is noticeably lower. One major concern is MEM project investments being less of a priority to public investments in economic infrastructure over the past three years (annex table 1). However, a project breakdown of the figures helps explain a significant proportion of it.

Annex Table 1: Budget Execution within the Ministry of Energy and Minerals (MEM)

	FY 2007/08	FY 2008/09	FY 2009/10
	Budget outturn (%)		
Total	19%	31%	61%
Recurrent	94%	90%	98%
Development			
Total	9%	19%	36%
Domestic	3%	99%	85%
Foreign	20%	11%	1%
	% of economic infrastructure 1/		
MEM investments, total	31%	28%	12%
Domestic	40%	6%	9%
Foreign	22%	42%	15%

Source: Ministry of Finance.

1/ Includes development expenditure in the ministries of Infrastructure Development, Energy and Minerals, and Water and Irrigation.

Procurement

Sound procurement practices in the energy sector: Joint Energy Sector Review (JESR) consultants are of the view that systemic issues in procurement reform are being addressed adequately within the energy sector. Procurement procedures are well defined, national procedures set by PPRA are consistent with good international practice, institutional capacities are being strengthened, there is a strong contracting role at MEM's Procurement Management Unit (PMU), procurement plans and action plans are aligned accordingly, and PMU is being adequately trained, among others.

Appraisal of Public Investment: Chile

Chile has managed to promote economic growth and keep discipline in its public finances through the unrelenting and disciplined use of transparent cost-benefit analysis for all public investment projects. This brief discusses some of the most salient characteristics of the Chilean system for evaluating public investment projects.¹

CHILE HAS ACCUMULATED OVER THREE DECADES of a successful experience on the systematic appraisal of public investment.² Modern project appraisal for public investment started in 1975, with the establishment of the National System of Investments (SNI) at the Ministry of Planning (MoP),³ currently administered jointly with the Ministry of Finance (MoF). The MoP performs appraisals for all public-investment projects on the basis of cost-benefit analyses (CBA) carried out with a clearly specified methodology—including a shadow social price system and a social rate of discount. The SNI currently comprises an online databank with over 300,000 entries—*i.e.*, policy ‘initiatives.’

As explained by Ernesto Fontaine (1997), every public-investment project is subject to the same CBA discipline, under a set of clearly specified methodologies published by the MoP. The law mandates that the capital budget sent by the MoF to Congress can only include projects within the SNI, which have also been favorably assessed by the MoP. Among other prudential qualities, this process screens out ‘white elephants,’ and also rules out the possibility of investment projects entering the budget at the congressional stage—the only entry door is the SNI.⁴

Fontaine (2004) discusses several elements that account for the success of project appraisal in Chile. These include: the continuity of the strong political will that has supported the system over decades, the substantial amount of training and capacity building at all levels of government, the (sophisticated) simplicity of the methodological manuals published, and constantly updated, by the MoP, and the practice of reviewing the appraisal of projects before they reach the feasibility stage—*i.e.*, before they have too many clients and beneficiaries—so that projects may be reformulated, or abandoned, before they acquire a life of their own.

1. The National Investment System

The National Investment System (SNI) refers to a set of norms, techniques and procedures which govern the public investment process. The objective of the SNI is to improve the quality of the public investment, by selecting the projects with the social largest net present value—and thereby increasing the country’s net worth. The SNI is jointly administered by the MoP and the MoF, and its main tools are:

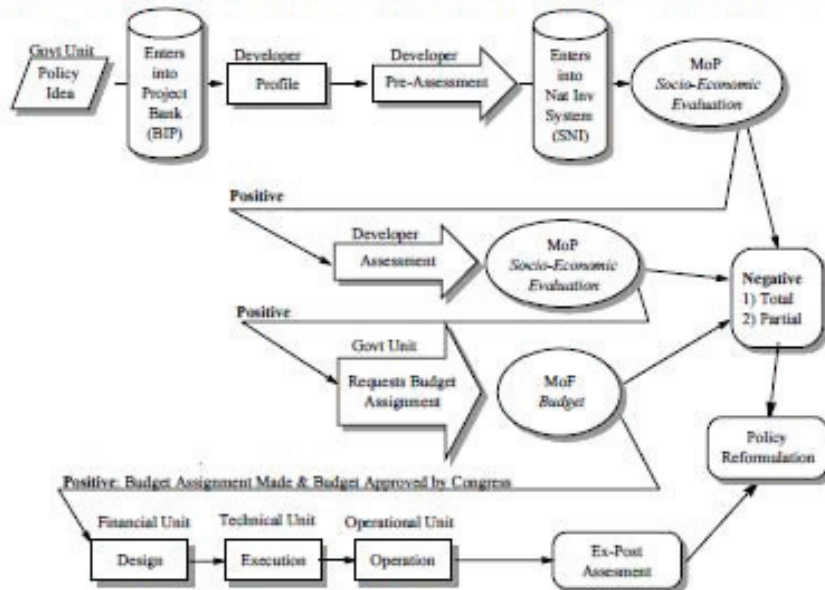
- (1) Methodologies for preparing and assessing projects from a coherent and homogeneous socio-economic perspective—including a specified set of shadow prices, and a social discount rate (currently 8%).
- (2) Continuous training of officials to develop adequate technical capacity at all levels of government, and in all regions.

- (3) A publicly available integrated data bank of projects (BIP), enabling efficient and coordinated public-finance management and well-informed policymaking.

1.1. The Appraisal Process

Fig. 1 displays a schematic representation of the project appraisal cycle. The process starts out with a ‘policy idea’ by a government unit which enters it into the BIP—and thereby gets assigned a project ID. This ‘idea’ needs to be developed into a project profile that is subsequently subjected to a pre-assessment study—including examination of legal and technical issues, as well as a socio-economic analysis. Once the required documentation is put together, the project ID is entered into the SNI. The MoP then makes an analysis, which includes legal issues, alignment with policy priorities (*e.g.*, impact on gender equality), environmental issues, stakeholder participation, etc. The MoP then may issue either a positive or a negative recommendation—which may be partial, asking for a reformulation, or straightforward rejection.

Fig. 1. Schematic Public-Investment Project Appraisal Cycle in Chile



Upon a positive initial recommendation, a full-fledged CBA is performed. Instead of using distributive weights or inserting poorly-measured external effects into the CBA calculus, the MoP’s preferred approach is to perform a simpler CBA on what can be reasonably measured, but allowing for positive recommendations in instances where, while the NPV may be negative, there may be important positive externalities. When benefits are not amenable to proper quantification, cost-effectiveness analysis is used.

On the basis of the analysis, the MoP—taking also into account the MoF sectoral draft-budget envelopes—issues either a positive recommendation (which can be unconditional, or conditional on small reformulations), or plainly rejects the project. The intersectoral

allocation is, in this way, handled by the draft-budget priorities. Multiyear projects with remaining execution balances are also counted against the pertinent sectoral envelope. Government units may typically hold a portfolio of approved projects exceeding the funds allocated to them, and must consequently choose themselves which projects to submit to the draft budget. Also, previously approved projects may be stopped later if conditions change very substantially (*e.g.*, cost overruns).

With a positive MoP appraisal, the government unit can request a budget appropriation from the MoF. When the budget is discussed by Congress, it is still possible that some allocations may shrink and some projects eliminated for the next fiscal year—what is most emphatically ruled out is the possibility of projects entering the budget without going through all the process described above.

If the project makes it to the capital budget then it will go through a financial design, an implementation by a technical unit before it finally enters the operation stage. The process continues to an ex-post assessment phase where different aspects of the process are evaluated, in the context of the comprehensive performance budgeting framework currently adopted by the government of Chile.

Fig. 2 shows the actual number of BIP projects processed in 2005 fiscal year. At the end of the process 5,433 projects (28% of the 19,262 entered into the BIP) make it to the approved capital budget—of which, 3,103 (57%) are new and 2,578 (43%) correspond to previously initiated multi-year projects.

Fig. 2. Summary of the 2005 Public-Investment Appraisal Process in Chile

Pre-Assessment		Assessment		Budget	
IDs entered into the BIP 19,262	IDs entered into the SNI 11,821 61%	New IDs 8,954 76%	Entered in 2004 6,166 69%	Positive 2,831 46%	Budget 1,695, 59%
		IDs from Proj in Execution 2,867, 24%	Entered in 2005 2,788, 31%	Positive 1,896, 68%	Budget 1,408, 74%
				Positive 2,578 90%	Budget 2,350, 91%
	IDs not entered into the SNI 7,441 39%				
<i>Total number of projects in the Budget:</i>					5,453
<i>% of Total BIP:</i>					28%

Source: BIP, MIDEPLAN.

Prepared by Eduardo Ley, who benefited from useful conversations with Hugo Arancibia, Viviana Espinoza, Ernesto Fontaine, Santiago Herrera, Vikram Nehru, and Pamela Vera.

Footnotes

- [1] This brief draws heavily from articles by E. Fontaine (1997, 2004), presentations by M. Marcel (2004), H. Arancibia (2006), and guidance notes posted on the web by MIDEPLAN.
- [2] Chile has enjoyed an average real-GDP per-capita growth of 3% since 1975. More recently, Giovagnoli *et al.* (2005) note that: “During the 90s Chile had one of the best socio-economic performances in the region. On average, GDP grew at an annual rate of 6.3%. [...] As a result of the economic progress, poverty—measured by the headcount ratio using the official moderate poverty line—significantly decreased from 45.1% in 1987 to 21.7% in 1998. For the first time, the country reached the third position among the lowest poverty rates in LAC, after Uruguay and Costa Rica.”
- [3] The MoP is known in Chile as MIDEPLAN. Until 1990, it was an office attached to the president, and known as ODEPLAN. ODEPLAN was established in 1967 as a planning office advisory to the presidency, but the original focus was on macro (input-output) planning. In 1974 under the leadership of Roberto Kelly, the emphasis of ODEPLAN turned to project appraisal. In 1990, ODEPLAN was converted to the current Ministry of Planning. A few years later, the regional offices, SERPLAC (Secretaría Regional de Planificación, regional planning office) were created. In this brief we will refer to MIDEPLAN and SERPLAC jointly as MoP. See Fontaine (1997, 2003) for more details.
- [4] As we shall see below, once a project in the RIP has a pre-assessment study and other required documentation, it is entered into the SNI. Until 1995, the only exception were presidentially-sponsored projects, which required a special presidential petition and decree. In 1995, at the end of the Aylwin government, this was eliminated and now every single project must go through the system.

2. References

- Arancibia, H. (2006) “Cost-Benefit Analysis of Investment in The Budget Process: The Experience of Chile”, presentation at The World Bank, Washington DC, November 7, 2006.
- Fontaine, E.R. (1997) “Project Evaluation Training and Public Investment in Chile,” *American Economic Review*, 87(2): 63-67.
- Fontaine, E.R. (2004) “Project Evaluation and the National System of Public Investment in Chile” presentation at The World Bank, Washington DC, October 27, 2004.
- Giovagnoli, Paula, Georgina Pizzolitto, and Julieta Trías, (2005) “Monitoring Socio-Economic Conditions in Chile” CEDLAS-The World Bank.
- Marcel, M. (2004) “Public Expenditure Evaluation and Growth—Country Experiences: Chile,” presentation at The World Bank, Washington DC, October 27, 2004.
- ODEPLAN (1990) *Inversión Pública Eficiente—Un Continuo Desafío*, Santiago de Chile: Odeplan.
- Several methodological manuals are available in Spanish at <http://www.mideplan.cl/>

Annex 3: Statistical Appendix Tables

Appendix 1: Tanzania Key Macroeconomic Indicators

Indicator	Unit	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Population (Mainland)/2	Millions	31.9	32.9	33.6	34.2	35.3	36.2	37.5	38.3	39.4	42.9	43.7
Per capita Income/2	US\$	294.9	294.0	299.2	313.0	334.9	358.6	354.0	403.8	483.0	483.4	505.9
GDP Growth/2	%	4.9	6.0	7.2	6.9	7.8	7.4	6.7	7.1	7.0	6.0	7.0
Gross Domestic Savings/2	(as a % of GDP)	9.2	8.8	12.9	12.2	13.6	11.7	10.2	10.2	16.2	17.0	16.9
Gross Investments/2	(as a % of GDP)	16.4	17.0	18.7	20.0	19.0	19.2	20.4	22.3	22.3	24.5	24.3
Inflation/2 (period average)	%	6.0	5.2	4.3	5.4	4.7	5.0	7.2	7.0	10.3	11.9	10.5
Exchange Rate/1 (period average)	TZ\$/US\$	800.4	876.4	966.6	1038.4	1089.3	1128.9	1251.9	1245.0	1196.3	1320.3	1410.2
External Sector												
Exports - Goods & Services/1	Mil. US\$	1307.1	1430.7	1800.0	2034.1	2310.2	2843.4	3192.5	3750.7	4834.0	5086.4	5695.0
Imports - Goods & Services/1	Mil. US\$	-2063.9	-2232.2	-2185.1	-2279.4	-2991.7	-3852.7	-4679.6	-5684.4	-7541.9	-7875.9	-8274.5
Current Account Balance/1	Mil. US\$	-932.1	-480.9	-324.4	-23.9	-296.2	-518.6	-1,065.3	-1,523.3	-2,114.4	-2,130.1	-1,955.0
Balance of Payments (Overall balance)/1	Mil. US\$	56.9	-66.8	59.4	361.8	105.1	55.5	346.2	232.6	500.2	18.1	478.4
Foreign Reserves/1	Mil. US\$	1,183.8	1,670.4	1,877.5	2,137.2	1,968.6	2,247.4	1,863.2	2,157.3	2,660.0	2,929.8	3,482.6
External Debt/2	Bil. US\$/1	6.9	6.2	6.8	7.0	7.8	8.3	4.2	4.7	5.8	7.0	8.2
Foreign Direct Investment/1	Mil. US\$	411.9	335.4	388.2	347.9	319.4	689.0	669.3	492.3	490.8	407.8	423.8
Tourism Earnings/2	Mil. US\$	739.1	725.0	730.0	731.0	746.0	823.6	862.0	1037.0	1198.8	1354.0	--
Monetary Sector												
Average Deposit Rate/1	%	7.4	4.8	3.3	3.0	4.2	4.7	6.7	8.7	8.3	8.0	6.6
Average Lending Rate/1	%	21.6	20.1	16.4	14.5	14.1	15.2	15.7	16.1	15.0	15.0	14.5
Growth in Money Supply (M2)/1	%	15.1	14.9	21.3	16.9	19.1	27.5	16.7	27.2	24.4	20.8	20.9
Government Finance												
Total Domestic Revenue/1	(as a % of GDP)	10.5	10.8	10.8	11.1	11.6	11.8	12.5	14.1	15.9	16.2	15.8
Tax Revenue/1	(as a % of GDP)	9.3	9.5	9.6	10.0	10.6	10.7	11.4	13.0	14.7	15.3	14.6
Non-Tax Revenue/1	(as a % of GDP)	1.2	1.3	1.2	1.1	1.0	1.1	1.1	1.1	1.2	0.9	1.2
Total Expenditure/1	(as a % of GDP)	15.2	15.2	16.5	18.6	20.7	21.7	22.8	23.9	24.4	25.8	26.9
Recurrent Expenditure/1	(as a % of GDP)	9.9	11.5	13.1	13.6	15.1	14.6	17.2	17.0	14.9	17.66	18.8
Development Expenditure/1	(as a % of GDP)	5.3	3.7	3.4	5.0	5.6	7.1	5.6	6.1	8.0	8.4	8.6
Grants/1	(as a % of GDP)	4.5	3.7	4.5	6.2	6.1	7.7	5.4	4.9	6.9	5.1	4.6
Fiscal Balance/1	(as a % of GDP)	-7.3	-5.0	-5.6	-7.7	-9.3	-9.9	-10.3	-9.4	-8.3	-7.4	-8.4

Note

/1 Fiscal year is used, and it ends June 30th of the mentioned year

/2 Calendar year is used, and it ends in mentioned year December 31th.

Source: Tanzania Authorities (MoF, BoT, NBS, and MPEE).

Appendix 2: Balance of Payments (in millions of US dollar)

	2000	2001	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
I. Current Account	-437.8	-506.2	-324.4	-24.0	-296.3	-521.1	-1,083.6	-1,523.3	-2,114.4	-2,130.1	-1,955.0
A. Goods and services	-756.8	-801.5	-385.2	-245.3	-681.5	-1,009.2	-1,487.0	-1,933.7	-2,707.8	-2,789.5	-2,579.5
a. Goods	-704.6	-786.3	-665.4	-541.7	-879.5	-1,124.3	-1,640.5	-2,299.0	-3,104.9	-2,952.0	-2,816.1
Exports f.o.b. on BOP basis	663.3	776.4	888.6	1,085.9	1,303.9	1,607.4	1,795.9	2,036.6	2,915.9	3,268.5	3,754.2
Exports f.o.b. in trade returns	663.3	776.4	888.6	1,085.9	1,303.9	1,607.4	1,752.1	1,851.4	2,583.3	2,842.1	3,264.5
Traditional	292.8	231.1	194.3	221.7	220.5	327.3	363.9	281.7	411.5	509.9	456.6
Nontraditional	370.5	545.3	694.3	864.1	1,083.4	1,280.0	1,388.1	1,569.7	2,171.8	2,332.2	2,807.8
o/w gold			311.2	386.9	582.3	666.2	686.7	815.0	1,041.2	924.8	1,493.0
Unrecorded trade	0.0	0.0	0.0	0.0	0.0	0.0	43.8	185.1	332.5	426.3	489.7
Imports f.o.b. on BOP basis	-1,367.9	-1,562.7	-1,554.0	-1,627.6	-2,183.4	-2,731.6	-3,436.4	-4,335.6	-6,020.8	-6,220.5	-6,570.3
b. Services	-52.2	-15.3	280.2	296.4	198.0	115.0	153.5	365.3	397.1	162.5	236.6
Credit	643.8	654.3	911.3	948.2	1,006.3	1,236.1	1,396.7	1,714.2	1,918.2	1,818.0	1,940.8
Transportation	56.8	68.4	106.9	133.7	152.2	199.2	287.8	333.8	410.3	322.3	353.8
Passenger services	4.2	11.3	7.8	4.2	12.0	10.1	21.8	34.8	39.2	21.6	22.4
Freight	40.7	39.7	85.8	91.6	102.5	131.0	205.3	229.9	324.6	263.5	302.5
Other	11.9	17.4	13.2	37.9	37.7	58.1	60.6	69.1	46.5	37.2	28.9
Travel	376.7	412.8	623.7	640.0	689.6	806.5	898.1	1,076.9	1,189.7	1,163.0	1,238.5
Debit	-696.0	-669.6	-631.1	-651.8	-808.3	-1,121.0	-1,243.2	-1,348.8	-1,521.1	-1,655.4	-1,704.2
Transportation	-205.7	-194.3	-188.9	-185.8	-236.2	-288.9	-374.2	-450.4	-600.4	-629.3	-673.3
Passenger services	-32.4	-36.3	-33.1	-20.4	-23.6	-18.3	-35.0	-30.6	-22.6	-29.7	-41.8
Freight	-167.3	-149.7	-149.3	-156.0	-206.5	-262.1	-329.7	-412.6	-573.7	-596.5	-627.4
Other	-5.9	-8.3	-6.6	-9.4	-6.1	-8.5	-9.6	-7.2	-4.1	-3.0	-4.1
B. Income	-73.0	-119.6	-108.4	-123.0	-115.6	-122.9	-89.0	-107.3	-92.4	-74.7	-35.8
Credit	50.4	55.4	66.1	73.7	88.9	82.9	74.6	89.0	128.4	124.6	160.3
Compensation of employees	8.0	10.0	8.0	6.8	7.3	9.3	9.3	5.0	9.9	7.9	12.0
Investment income	42.3	45.4	58.2	66.9	81.6	73.6	65.3	84.0	118.5	116.7	148.3
Debit	-123.3	-175.0	-174.5	-196.7	-204.5	-205.8	-163.6	-196.2	-220.8	-199.3	-196.1
Compensation of employees	-20.3	-22.1	-22.4	-18.2	-21.5	-32.6	-17.7	-28.7	-31.9	-35.1	-38.6
Investment income	-103.0	-152.9	-152.1	-178.5	-183.0	-173.2	-145.9	-167.5	-188.9	-164.2	-157.5
C. Current transfers (net)	391.9	414.9	169.2	344.3	500.9	611.0	492.5	517.8	685.8	734.1	660.3
Credit	464.8	484.9	256.8	407.4	563.4	677.5	559.6	589.9	762.8	800.7	732.5
General government	429.9	433.8	200.9	343.8	483.9	595.6	463.9	496.3	659.3	702.5	623.4
Multilateral HIPC relief	42.7	41.9	65.1	62.7	71.5	83.5	66.8	12.5	0.0	0.0	0.0
Other sectors	34.9	51.1	55.9	63.6	79.4	81.9	95.7	93.6	103.5	98.1	109.1
Debit	-72.9	-70.0	-87.6	-63.1	-62.5	-66.5	-67.1	-72.1	-77.0	-66.5	-72.3
General government	0.0	0.0	-2.6	-4.3	-4.0	-5.2	-2.7	-4.1	0.0	0.0	0.0
Other sectors	-72.9	-70.0	-85.0	-58.8	-58.5	-61.3	-64.4	-68.0	-77.0	-66.5	-72.3
2. Capital and Financial Account	862.5	657.7	848.1	903.6	839.4	1,151.7	1,330.8	1,493.6	2,145.7	1,684.8	2,235.0
A. Capital account	330.4	365.2	912.8	738.6	519.6	301.4	587.9	4,795.3	679.9	379.2	607.9
Capital transfers	330.4	365.2	912.8	738.6	519.6	301.4	587.9	4,795.3	679.9	379.2	607.9
General government: credit	314.7	342.9	884.7	704.9	480.9	259.9	542.3	4,746.4	622.4	317.2	544.7
B. Financial account	532.1	292.5	-64.7	165.0	319.8	850.3	742.9	-3,301.6	1,465.8	1,305.7	1,627.1
Direct investment	463.4	327.2	472.4	357.0	380.5	689.0	669.3	492.3	490.8	407.8	423.8
Abroad	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In Tanzania	463.4	327.2	472.4	357.0	380.5	689.0	669.3	492.3	490.8	407.8	423.8
Portfolio investment	0.0	0.0	5.2	2.5	2.6	2.5	2.6	2.7	2.8	3.0	3.1
Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	0.0	0.0	5.2	2.5	2.6	2.5	2.6	2.7	2.8	3.0	3.1
Other investment	68.6	-34.7	-542.3	-194.4	-63.2	158.8	71.1	-3,796.6	972.2	894.9	1,200.1
Assets	-134.0	-76.7	-37.2	-19.5	44.3	19.0	-197.8	4.2	-39.6	-6.3	-300.5
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	-134.0	-76.7	-37.2	-19.5	44.3	19.0	-197.8	4.2	-39.6	-6.3	-300.5
Banks	-134.0	-76.7	-37.2	-19.5	44.3	19.0	-197.8	4.2	-39.6	-6.3	-300.5
Other sectors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	202.7	42.0	-505.1	-174.9	-107.5	139.8	268.9	-3,800.8	1,011.8	901.2	1,500.6
Trade credits	12.8	13.0	23.8	26.2	14.2	1.2	5.6	9.9	10.0	10.1	10.2
Loans	186.0	52.3	-440.6	-202.4	-118.8	122.8	306.0	-3,703.7	1,002.2	892.1	1,490.9
Bank of Tanzania	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	249.0
SDR Allocation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	249.0
General government	188.3	-63.6	-481.1	-213.8	-107.9	59.5	105.7	-3,814.1	724.1	718.9	1,058.5
Drawings	386.7	157.0	326.1	325.7	306.3	306.3	565.2	832.8	834.3	739.6	1,087.2
Repayments	-198.4	-220.6	-807.2	-539.4	-414.2	-246.9	-459.5	-4,646.9	-1,102.2	-20.8	-28.7
Scheduled payer	-188.4	-89.2	-200.4	-108.7	-120.3	-107.7	-67.8	-20.9	-38.4	-20.8	-28.7
Rescheduled debt	-10.0	-131.4	-70.6	-48.3	-43.5	0.0	0.0	0.0	0.0	0.0	0.0
Debt forgiveness			-536.2	-382.4	-250.4	-139.2	-391.8	-4,626.0	-71.8	0.0	0.0
Banks	-0.9	2.0	4.0	2.2	0.8	3.9	18.4	3.0	60.6	-3.1	-19.5
Other sectors	-1.4	113.9	36.5	9.2	-11.7	59.5	181.9	107.4	217.5	176.3	202.9
Drawings	2.5	171.6	95.4	75.5	57.9	117.3	189.7	137.2	253.9	338.8	304.9
Repayments	-3.9	-57.7	-58.9	-66.3	-69.7	-57.9	-7.8	-29.8	-36.4	-162.5	-102.0
Scheduled payer	-3.9	-57.7	-58.9	-66.3	-69.7	-57.9	-7.8	-29.8	-36.4	-162.5	-102.0
Currency and deposits	3.9	-23.3	-88.3	1.3	-2.9	15.8	-42.6	-107.0	-0.5	-1.0	-0.5
Net errors and omissions	-367.8	-218.2	-464.3	-517.8	-438.0	-575.1	99.0	262.2	468.9	463.3	198.4
Overall balance	56.9	-66.8	59.4	361.8	105.1	55.5	346.2	232.6	500.2	18.1	478.4
Financing	-56.9	66.8	-59.4	-361.8	-105.1	-55.5	-346.2	-232.6	-500.2	-18.1	-477.6
Reserve assets	-197.4	-186.4	-251.4	-460.2	-196.9	-80.7	20.5	-236.8	-501.5	-264.4	-570.1
Use of Fund credit and loans	49.4	15.6	20.8	4.6	-3.1	-38.3	-366.7	4.2	1.3	246.3	92.5
Exceptional financing	91.1	237.5	171.2	93.8	94.9	63.6	0.0	0.0	0.0	0.0	0.0
Rescheduled debt	10.0	131.4	70.6	48.3	43.5	0.0	0.0	0.0	0.0	0.0	0.0
Debt forgiveness											
Interest arrears	48.8	53.3	33.8	32.8	16.2	43.2	0.0	0.0	0.0	0.0	0.0
Principal arrears	32.3	52.8	66.8	12.7	35.3	20.4	0.0	0.0	0.0	0.0	0.0
Memorandum items											
Gross international reserves (stock)	1,183.8	1,670.4	1,877.5	2,137.2	1,968.6	2,247.4	1,863.2	2,157.3	2,660.0	2,929.8	3,482.6
In months of imports (current year)	6.4	8.3	7.5	6.9	6.1	6.2	4.8	4.6	4.2	4.5	5.1

Appendix 3: Budget Frame – Analytical (in Billion TShs.)

	2010/11	2011/12	2012/13
	Budget	Projections	Projections
Domestic Revenue	6,003.6	6,904.1	7,939.7
o/w Fuel Levy and transit fees	286.9	315.6	353.5
LGAs Own Sources	172.6	181.2	190.3
Total Expenditure	10,769.6	11,000.8	12,080.5
Recurrent expenditure	6,950.6	7,386.4	7,973.2
Interest on external debt	129.4	146.0	215.4
Interest on domestic debt	235.0	368.0	358.4
Wages/salaries	2,205.4	2,379.1	2,685.5
Goods/services/transfers	4,380.7	4,493.3	4,714.0
o/w Fuel Levy and Transit Fee	286.9	315.6	353.5
Special Expenditure	318.5	334.4	351.1
CFS (Others)	551.6	527.4	606.0
Parastatal PE	461.4	441.6	498.5
Retention Scheme	129.7	136.2	143.0
LGAs Own Sources	172.6	181.2	190.3
Other Charges	2,459.9	2,556.8	2,571.5
Development expenditure	3,819.1	3,614.4	4,107.3
Projects	3,819.1	3,614.4	4,107.3
Local	1,366.1	1,552.0	1,881.1
Foreign	2,452.9	2,062.4	2,226.2
o/w MCC (MCA-T)	268.8	408.3	188.9
Overall Deficit - before grants	-4,593.4	-3,915.5	-3,950.5
Grants	2,020.9	1,811.6	1,897.6
Budget Support	631.8	502.2	466.4
Project grants	1,389.1	1,309.4	1,431.2
o/w Development Projects	898.8	523.7	784.1
o/w MCC (MCA-T)	268.8	408.3	188.9
o/w Basket Support	221.6	377.4	458.2
MDRI (IMF)	0.0	0.0	0.0
Overall Deficit - after grants	-2,572.5	-2,103.9	-2,052.9
Financing	2,572.5	2,103.9	2,052.9
Foreign	1,942.5	1,707.6	1,602.0
Budget Support loans	189.8	301.9	315.6
Project support	1,063.8	753.0	795.0
o/w Project Loans	807.6	477.0	501.0
o/w Basket Support Loans	256.2	276.0	294.0
Amortization	-42.3	-102.0	-175.7
Domestic (net)	630.0	396.3	450.9
Bank (net)	600.0	396.3	450.9
Non-bank (Rollover)	797.6	561.0	605.0
Amortization of Contingent Debt	0.0	0.0	0.0
Domestic Amortization (Rollover)	-797.6	-561.0	-605.0
<i>memo:</i>			
GDPmp	34,749.8	39,625.1	45,087.2
OC for distribution	3,829.0	3,965.9	4,107.9
<i>Primary Deficit(checks issued)</i>	-4,401.6	-3,582.7	-3,567.0
<i>Government Saving(checks issued)</i>	-947.0	-482.3	-33.5
<i>% of GDP Saving</i>	-2.7	-1.2	-0.1

Source: Ministry of Finance.

Appendix 4: Budget Frame – Analytical (in % of GDP)

	2010/11	2011/12	2012/13
	Budget	Projections	Projections
Domestic Revenue	17.3	17.4	17.6
o/w Fuel Levy and transit fees	0.8	0.8	0.8
LGAs Own Sources	0.0	0.0	0.0
Total Expenditure	31.0	27.8	26.8
Recurrent expenditure	20.0	18.6	17.7
Interest on external debt	0.4	0.4	0.5
Interest on domestic debt	0.7	0.9	0.8
Wages/salaries	6.3	6.0	6.0
Goods/services/transfers	12.6	11.3	10.5
o/w Fuel Levy and Transit Fee	0.8	0.8	0.8
Special Expenditure	0.9	0.8	0.8
CFS (Others)	1.6	1.3	1.3
Parastatal PE	1.3	1.1	1.1
Retention Scheme	0.4	0.3	0.3
Rescue Package	0.0	0.0	0.0
LGAs Own Sources	0.5	0.0	0.0
Other Charges	7.1	6.5	5.7
Development expenditure	11.0	9.1	9.1
Projects	11.0	9.1	9.1
Local	3.9	3.9	4.2
Foreign	3.8	2.9	2.5
o/w MCC (MCA-T)	7.1	5.2	4.9
Overall Deficit - before grants	-13.2	-9.9	-8.8
Grants	5.8	4.6	4.2
Budget Support	1.8	1.3	1.0
Project grants	4.0	3.3	3.2
o/w development projects	2.6	1.3	1.7
o/w MCC (MCA-T)	0.8	1.0	0.4
o/w Basket Support	0.6	1.0	1.0
MDRI (IMF)	0.0	0.0	0.0
Overall Deficit - after grants	-7.4	-5.3	-4.6
Financing	7.4	5.3	4.6
Foreign	5.6	4.3	3.6
Budget Support loans	0.5	0.8	0.7
project support	3.1	1.9	1.8
o/w Project Loans	2.3	1.2	1.1
o/w Basket Support Loans	0.7	0.7	0.7
amortization	2.1	1.9	1.5
Local (net)	-0.1	-0.3	-0.4
Bank (net)	1.8	1.0	1.0
Non-bank	1.7	1.0	1.0
Amortization of Contingent Debt	2.3	1.4	1.3
<i>memo:</i>			
<i>OC for distribution</i>	11.0	10.0	9.1
<i>Primary Deficit(checks issued)</i>	-12.7	-9.0	-7.9
<i>Government Saving(checks issued)</i>	-2.7	-1.2	-0.1

Source: Appendix 3.

Appendix 5: Budget Frame – Accounting (in Billion TShs.)

	2010/11	2012/13	2013/14
	Budget	Projections	Projections
I. Total Resources	11,609.6	11,663.8	12,861.2
Domestic revenue	6,003.6	6,904.1	7,939.7
LGAs Own Sources	172.6	181.2	190.3
Programme loan and grants	821.6	804.1	782.0
Project loans and grants	1,706.4	1,000.7	1,285.1
Basket Support Loans	256.2	276.0	294.0
Basket Support Grants	221.6	377.4	458.2
MCC (MCA-T)	268.8	408.3	188.9
Non Bank Borrowing (Rollover)	797.6	561.0	605.0
Bank Borrowing	600.0	396.3	450.9
Non Concessional Borrowing	731.2	754.7	667.1
Privatisation Funds	30.0	0.0	0.0
II. Total Expenditure	11,609.6	11,663.8	12,861.2
Recurrent Expenditure	7,790.5	8,049.4	8,753.9
CFS	1,756.0	1,704.4	1,960.5
Debt service	1,204.4	1,177.0	1,354.5
Interest	364.5	514.0	573.8
Amortization	839.9	663.0	780.7
Others	551.6	527.4	606.0
Recurrent Exp (excl. CFS)	6,034.5	6,345.0	6,793.4
o/w Salaries & wages	2,205.4	2,379.1	2,685.5
Designated Items	318.5	334.4	351.1
Parastatal PE	461.4	441.6	498.5
LGAs Own Sources	172.6	181.2	190.3
Other Charges	2,876.6	3,008.7	3,068.1
Development Expenditure	3,819.1	3,614.4	4,107.3
Local	1,366.1	1,552.0	1,881.1
Foreign	2,452.9	2,062.4	2,226.2
o/w MCC (MCA-T)	268.8	408.3	188.9

Source: Ministry of Finance.

Appendix 6: Budget Frame – Accounting (in % of GDP)

	2010/11 Budget	2011/12 Projections	2012/13 Projections
I. Total Resources	33.4	29.4	28.5
Domestic revenue	17.3	17.4	17.6
LGAs Own Sources	0.5	0.5	0.4
Programme loan and grants	2.4	2.0	1.7
Project loans and grants	4.9	2.5	2.9
Basket Support Loans	0.7	0.7	0.7
Basket Support Grants	0.6	1.0	1.0
HIPC relief-Multilateral	0.0	0.0	0.0
MDRI (IMF)	0.0	0.0	0.0
MCC (MCA-T)	0.8	1.0	0.4
Non Bank Borrowing (Rollover)	2.3	1.4	1.3
Bank Borrowing	1.7	1.0	1.0
Non Concessional Borrowing	2.1	1.9	1.5
Adjustment to cash	0.0	0.0	0.0
Privatisation Funds	0.1	0.0	0.0
II. Total Expenditure	33.4	29.4	28.5
Recurrent expenditure	22.4	20.3	19.4
CFS	5.1	4.3	4.3
Debt service	3.5	3.0	3.0
Interest	1.0	1.3	1.3
Amortization	2.4	1.7	1.7
Others	2.4	1.7	1.7
Recurrent Exp (excl. CFS)	1.6	1.3	1.3
o/w Salaries & wages	17.4	16.0	15.1
Designated Items	0.9	0.8	0.8
Parastatal PE	1.3	1.1	1.1
LGAs Own Sources	0.9	0.8	0.8
Rescue Package	1.3	1.1	1.1
Other Charges	0.5	0.5	0.4
Development expenditure	11.0	9.1	9.1
Local	3.9	3.9	4.2
Foreign	3.9	3.9	4.2
o/w MCC (MCA-T)	0.8	1.0	0.4

Source: Appendix 5.

Appendix 7: Government Expenditure by Strategic Allocation
(in Billion TShs.)

All Sectors	2009/10				2010/11					
	Recurrent	Development		Total	Total	Recurrent	Development		Total	Total
		D-L	D-F				D-L	D-F		
A. By Strategic Classification: MKUKUTA (transfer to LGA not included)										
MKUKUTA	1,775.9	778.8	1,634.8	2,405.3	4,234.8	3,258.6	848.2	1,960.5	2,808.8	6,067.4
Cluster I	694.3	551.5	737.2	1,279.4	1,862.5	1,333.6	692.0	1,246.7	1,938.8	3,272.3
Cluster II	632.0	173.6	560.0	734.0	1,430.5	1,227.7	97.8	641.7	739.5	1,967.2
Cluster III	449.5	49.9	112.0	163.1	644.4	697.3	55.7	59.2	114.9	812.2
Cross Cutting	-	3.8	225.7	228.9	297.4	-	2.7	12.9	15.6	15.6
Non-MKUKUTA	2,675.0	180.3	36.8	226.2	2,846.8	2,772.8	273.6	31.4	305.0	3,077.8
Total	4,451.0	959.1	1,671.6	2,631.6	7,081.6	6,031.4	1,121.9	1,991.9	3,113.8	9,145.2
B. By Strategic Classification: MKUKUTA (Including transfer to LGAs)										
MKUKUTA	4,465.9	816.0	1,494.1	2,310.1	6,776.0	5,017.7	1,054.1	2,422.5	3,476.5	8,494.2
Cluster I	1,295.0	577.4	782.8	1,360.2	2,655.2	1,611.8	823.6	1,375.0	2,198.6	3,810.4
cluster II	2,201.5	211.9	479.7	691.6	2,893.1	2,384.0	113.7	877.2	990.9	3,374.9
Cluster III	908.5	26.8	83.1	109.8	1,018.3	1,022.0	82.7	77.0	159.7	1,181.6
Cross Cutting	60.9	0.0	148.5	148.5	209.4	-	34.0	93.3	127.3	127.3
Non-MKUKUTA	2,222.7	151.5	366.7	518.2	2,740.9	2,772.8	311.1	31.4	342.5	3,115.3
Total	6,688.6	967.5	1,860.8	2,828.3	9,516.9	7,790.5	1,365.2	2,453.9	3,819.1	11,609.6
C. By Major Sectors										
Education	1,487.0	-	-	229.5	1,716.5	1,907.4	162.8	157.1	319.9	2,227.3
Health	483.7	-	-	303.5	787.2	582.2	60.6	563.0	623.7	1,205.9
Water	37.7	-	-	309.6	347.3	45.2	38.2	294.9	333.1	378.3
Agriculture	220.3	-	-	252.0	472.3	448.9	141.1	313.7	454.9	903.8
Roads	374.9	-	-	721.7	1,096.6	400.0	381.4	723.8	1,105.1	1,505.1
Judiciary	67.1	-	-	30.3	97.4	76.9	29.7	32.8	62.5	139.4
HIV-AIDS	10.7	-	-	151.9	162.6	-	-	-	-	-
Energy	55.3	-	-	230.2	285.5	65.9	124.9	136.3	261.3	327.2
Others	3,951.7	-	-	599.7	4,551.3	4,261.5	415.9	226.1	641.9	4,903.4
Grand Total	6,688.3	-	-	2,828.4	9,516.7	7,787.9	1,354.6	2,447.8	3,802.4	11,590.3
D. By Broad Functions										
Administration	1,539.3	136.0	473.1	609.1	2,148.4	1,873.6	336.8	518.8	855.6	2,729.2
CFS	1,523.0	-	-	-	1,523.0	1,756.0	-	-	-	1,756.0
Defense and Security	678.0	66.4	6.0	72.4	750.4	789.3	57.7	4.0	61.7	850.9
Economic Services	347.5	439.1	315.1	754.2	1,101.7	390.9	500.5	577.3	1,077.8	1,468.7
Production Services	244.4	32.6	145.4	178.0	422.4	277.0	28.7	139.1	167.8	444.8
Social Services	2,356.3	293.4	921.2	1,214.6	3,571.0	2,703.8	441.5	1,214.6	1,656.1	4,359.9
Grand Total	6,688.6	967.5	1,860.8	2,828.3	9,516.9	7,790.5	1,365.2	2,453.9	3,819.1	11,609.6

Source: Ministry of Finance.

Appendix 8: Government Expenditure by Strategic Allocation
(In percentage shares)

All Sectors	Rec	2009/10				Total	Rec	2010/11			Total
		Development		Total	Development			Total			
		D-L	D-F		D-L				D-F		
A. By Strategic Classification: MKUKUTA (transfer to LGA not included)											
MKUKUTA	39.9	81.2	97.8	91.4	59.8	54.0	75.6	98.4	90.2	66.3	
Cluster I	15.6	57.5	44.1	48.6	26.3	22.1	61.7	62.6	62.3	35.8	
Cluster II	14.2	18.1	33.5	27.9	20.2	20.4	8.7	32.2	23.7	21.5	
Cluster III	10.1	5.2	6.7	6.2	9.1	11.6	5.0	3.0	3.7	8.9	
Cross Cutting	-	0.4	13.5	8.7	4.2	-	0.2	0.6	0.5	0.2	
Non-MKUKUTA	60.1	18.8	2.2	8.6	40.2	46.0	24.4	1.6	9.8	33.7	
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
B. By Strategic Classification: MKUKUTA (Including transfer to LGAs)											
MKUKUTA	66.8	84.3	80.3	81.7	71.2	64.4	77.2	98.7	91.0	73.2	
Cluster I	19.4	59.7	42.1	48.1	27.9	20.7	60.3	56.0	57.6	32.8	
Cluster II	32.9	21.9	25.8	24.5	30.4	30.6	8.3	35.7	25.9	29.1	
Cluster III	13.6	2.8	4.5	3.9	10.7	13.1	6.1	3.1	4.2	10.2	
Cross Cutting	0.9	0.0	8.0	5.3	2.2	0.0	2.5	3.8	3.3	1.1	
Non-MKUKUTA	33.2	15.7	19.7	18.3	28.8	35.6	22.8	1.3	9.0	26.8	
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
C. By Major Sectors											
Education	22.2	0.0	0.0	8.1	18.0	24.5	12.0	6.4	8.4	19.2	
Health	7.2	0.0	0.0	10.7	8.3	7.5	4.5	23.0	16.4	10.4	
Water	0.6	0.0	0.0	10.9	3.6	0.6	2.8	12.0	8.8	3.3	
Agriculture	3.3	0.0	0.0	8.9	5.0	5.8	10.4	12.8	12.0	7.8	
Roads	5.6	0.0	0.0	25.5	11.5	5.1	28.2	29.6	29.1	13.0	
Judiciary	1.0	0.0	0.0	1.1	1.0	1.0	2.2	1.3	1.6	1.2	
HIV-AIDS	0.2	0.0	0.0	5.4	1.7	0.0	0.0	0.0	0.0	0.0	
Energy	0.8	0.0	0.0	8.1	3.0	0.8	9.2	5.6	6.9	2.8	
Other sectors	59.1	0.0	0.0	21.2	47.8	54.7	30.7	9.2	16.9	42.3	
Grand Total	100.0	0.0	0.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
D. By Broad Functions											
Administration	23.0	14.1	25.4	21.5	22.6	24.0	24.7	21.1	22.4	23.5	
CFS	22.8	0.0	0.0	0.0	16.0	22.5	0.0	0.0	0.0	15.1	
Defense and Security	10.1	6.9	0.3	2.6	7.9	10.1	4.2	0.2	1.6	7.3	
Economic Services	5.2	45.4	16.9	26.7	11.6	5.0	36.7	23.5	28.2	12.7	
Production Services	3.7	3.4	7.8	6.3	4.4	3.6	2.1	5.7	4.4	3.8	
Social Services	35.2	30.3	49.5	42.9	37.5	34.7	32.3	49.5	43.4	37.6	
Grand Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

Source: Ministry of Finance.

Appendix 9: Government Expenditure by Economic Allocation (In Billion TShs)

	2009/10			2010/11		
	Overall Government Budget billions					
	Recurrent	Development	Total	Recurrent	Development	Total
Total budget in billions						
MDA	4,999.6	2,301.7	7,301.4	6,026.8	3,049.3	9,076.1
LGAs+Regions	1,689.0	526.5	2,215.5	1,763.7	769.8	2,533.5
Total	6,688.6	2,828.3	9,516.9	7,790.5	3,819.1	11,609.6

	2009/10			2010/11		
	Overall Government = MDAs + LGAs : expenditure in billions					
	Recurrent	Development	Total	Recurrent	Development	Total
Current	6607.2	1300.9	7908.1	6,905.3	2,023.9	8,929.2
PE	2359.8	13.2	2373.0	2,839.4	28.0	2,867.4
Basic Salaries (incl Public)	1784.7	11.7	1796.3	2,159.6	3.3	2,162.9
Pension	525.3	1.6	526.9	0.3	0.1	0.3
Good and Services (incl. PE)	1930.8	781.8	2712.6	2,172.7	1,329.4	3,502.1
o/w Allowances	265.5	60.6	326.1	364.5	25.4	389.9
Maintenance	337.1	142.7	479.8	256.0	217.6	473.7
Current Transfer	940.6	363.2	1303.8	1,245.6	448.8	1,694.4
Interests	1039.0	0.0	1039.0	391.6	-	391.6
Capital	81.4	1527.3	1608.7	87.6	1,795.2	1,882.8
Infrastructure	11.9	1086.3	1098.1	14.1	1,434.1	1,448.2
Construction	2.3	437.4	439.7	3.3	502.3	505.6
Rehabilitation	9.6	648.9	658.5	10.8	931.7	942.6
Equipment	57.0	172.9	230.0	48.4	95.5	144.0
Other Capital	6.9	32.6	39.5	22.4	108.4	130.8
Studies	5.6	235.6	241.2	2.6	157.2	159.9
Total	6688.6	2828.3	9516.9	6,992.9	3,819.1	10,812.0

	2009/10			2010/11		
	Overall Government = MDAs : expenditure in billions					
	Recurrent	Development	Total	Recurrent	Development	Total
Current	4840.2	1031.3	5871.5	5,058.7	1,497.9	6,556.6
PE	1207.0	10.3	1217.3	1,535.7	14.3	1,550.0
Basic Salaries (incl Public)	681.9	9.0	690.9	867.6	0.0	867.6
Pension	525.1	1.3	526.4	0.3	0.1	0.3
Good and Services	1459.9	592.8	2052.7	1,740.0	1,006.8	2,746.8
o/w Allowances	215.6	23.4	239.1	260.1	14.4	274.5
Maintenance	244.5	71.0	315.5	234.2	45.6	279.8
Current Transfer (incl PE)	889.8	357.2	1247.1	1,160.5	431.1	1,591.6
Interests	1039.0	0.0	1039.0	388.3	-	388.3
Capital	74.2	1270.4	1344.6	55.5	1,566.2	1,621.7
Infrastructure	10.2	919.9	930.2	7.7	1,254.2	1,262.0
Construction	2.2	314.1	316.4	1.5	466.8	468.4
Rehabilitation	8.0	605.8	613.8	6.2	787.4	793.6
Equipment	51.8	146.9	198.7	29.0	77.7	106.8
Other Capital	6.8	23.8	30.6	17.0	90.0	107.0
Studies	5.4	179.8	185.2	1.7	144.3	146.0
Total	4914.4	2301.7	7216.1	5,114.2	3,064.1	8,178.3

	2009/10			2010/11		
	Overall Government = LGAs : expenditure in billions					
	Recurrent	Development	Total	Recurrent	Development	Total
Current	1767.1	269.6	2036.7	1,846.6	526.0	2,372.6
PE	1152.8	2.9	1155.7	1,303.6	13.7	1,317.3
Basic Salaries (incl Public)	1102.8	2.6	1105.4	1,292.0	3.3	1,295.3
Pension	0.2	0.3	0.5	-	-	-
Good and Services	470.9	189.1	660.0	432.7	322.6	755.3
o/w Allowances	49.9	37.2	87.0	104.4	11.0	115.4
Maintenance	92.6	71.6	164.2	21.8	172.0	193.8
Current Transfer	50.7	6.0	56.7	85.1	17.7	102.8
Interests	-	-	-	3.3	-	3.3
Capital	7.2	256.9	264.1	32.1	228.9	261.1
Infrastructure	1.6	166.3	168.0	6.4	179.9	186.2
Construction	0.1	123.3	123.3	1.8	35.5	37.3
Rehabilitation	1.6	43.1	44.7	4.6	144.4	149.0
Equipment	5.3	26.0	31.3	19.4	17.8	37.2
Other Capital	0.0	8.8	8.9	5.4	18.4	23.7
Studies	0.2	55.8	56.0	0.9	12.9	13.9
Total	1774.2	526.5	2300.8	1,878.7	755.0	2,633.7

PE refers to Public Enterprises.

Source: Ministry of Finance.

Appendix 10: Government Expenditure by Economic Allocation (In shares)

	2009/10			2010/11		
Overall Government Budget % shares						
	Rec	Dev	Total	Rec	Dev	Total
MDA	74.8	81.4	76.7	77.4	79.8	78.2
LGAs+Regions	25.3	18.6	23.3	22.6	20.2	21.8
Total	100.0	100.0	100.0	100.0	100.0	100.0
Overall Government = MDAs + LGAs : expenditure in % shares						
	Rec	Dev	Total	Rec	Dev	Total
Current	98.8	55.1	85.0	98.7	53.0	82.6
PE	41.0	0.4	28.1	40.6	0.7	26.5
Basic Salaries (incl Public Pension)	37.0	0.3	25.4	30.9	0.1	20.0
Good and Services (incl. Public o/w Allowances)	4.0	0.0	2.7	0.0	0.0	0.0
Maintenance	39.7	49.3	42.7	31.1	34.8	32.4
Current Transfer	6.5	0.8	4.7	5.2	0.7	3.6
Interests	5.3	2.6	4.4	3.7	5.7	4.4
Capital	1.2	44.9	15.0	1.3	47.0	17.4
Infrastructure	0.2	32.5	10.4	0.2	37.6	13.4
Construction	0.0	11.1	3.5	0.0	13.2	4.7
Rehabilitation	0.1	21.4	6.9	0.2	24.4	8.7
Equipment	0.8	5.2	2.2	0.7	2.5	1.3
Other Capital	0.1	0.8	0.3	0.3	2.8	1.2
Studies	0.1	6.4	2.1	0.0	4.1	1.5
Total	100.0	100.0	100.0	100.0	100.0	100.0
Overall Government = MDAs : expenditure in % shares						
	Rec	Dev	Total	Rec	Dev	Total
Current	98.6	55.1	83.1	98.9	48.9	80.2
PE	23.6	0.4	15.3	30.0	0.5	19.0
Basic Salaries (incl Public Pension)	13.3	0.3	8.7	17.0	0.0	10.6
Good and Services (incl. Public o/w Allowances)	10.3	0.0	6.6	0.0	0.0	0.0
Maintenance	30.9	21.0	27.4	34.0	32.9	33.6
Current Transfer	4.2	0.8	3.0	5.1	0.5	3.4
Interests	0.9	2.5	1.5	4.6	1.5	3.4
Capital	1.4	44.9	16.9	1.1	51.1	19.8
Infrastructure	0.2	32.5	11.7	0.2	40.9	15.4
Construction	0.0	11.1	4.0	0.0	15.2	5.7
Rehabilitation	0.2	21.4	7.7	0.1	25.7	9.7
Equipment	1.0	5.2	2.5	0.6	2.5	1.3
Other Capital	0.1	0.8	0.4	0.3	2.9	1.3
Studies	0.1	6.4	2.3	0.0	4.7	1.8
Overall Government = LGAs : expenditure in % shares						
	Rec	Dev	Total	Rec	Dev	Total
Current	99.5	73.3	99.0	98.3	69.7	90.1
PE	80.7	1.9	79.2	69.4	1.8	50.0
Basic Salaries	77.2	0.5	75.7	68.8	0.4	49.2
Pension	0.0	0.0	0.0	0.0	0.0	0.0
Good and Services	14.7	44.8	15.3	23.0	42.7	28.7
o/w Allowances	3.5	1.5	3.5	5.6	1.5	4.4
Maintenance	0.5	24.1	1.0	1.2	22.8	7.4
Current Transfer	3.6	2.3	3.5	4.5	2.3	3.9
Capital	0.5	26.7	1.0	1.7	30.3	9.9
Infrastructure	0.1	21.1	0.5	0.3	23.8	7.1
Construction	0.0	1.9	0.0	0.1	4.7	1.4
Rehabilitation	0.1	19.2	0.5	0.2	19.1	5.7
Equipment	0.4	2.4	0.4	1.0	2.4	1.4
Other Capital	0.0	2.3	0.0	0.3	2.4	0.9
Studies	0.0	0.8	0.0	0.1	1.7	0.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Appendix 9.

Appendix 11: Government Expenditure – Agriculture Sector

	2009/10			2010/11			Change
	Rec	Dev	Total	Rec	Dev	Total	
Agriculture Sector Budget Shares							
Sector share in total budget	5.04	11.65	7.01	5.76	11.91	7.78	0.78
Shares of Sectoral budget							
MDA	63.83	68.07	65.93	65.64	67.43	66.54	0.61
LGAs+Regions	36.17	31.93	34.07	34.36	32.57	33.46	-0.61
Total	100.0	100.0	100.0	100.0	100.0	100.0	
Agriculture Sector = MDAs + LGAs : Share of total sector expenditure							
	2009/10			2010/11			
	Rec	Dev	Total	Rec	Dev	Total	Change
Current	80.3	48.0	65.2	81.8	75.0	78.4	13.2
PE	41.8	1.3	22.8	19.7	0.4	9.9	-12.9
Basic Salaries (incl Public Ent.)	41.8	1.0	22.7	19.2	0.0	9.5	
Pension	0.0	0.2	0.1	0.0	0.0	0.0	
Good and Services (incl. Public Ent.)	35.1	30.9	33.1	43.6	53.6	48.7	15.6
o/w Allowances	5.8	12.6	9.0	1.7	0.9	1.3	
o/w National Food Security and							
Fertilizer	15.5	0.1	8.3	15.2	11.5	13.3	5.0
Maintenance	1.2	12.0	6.3	0.7	3.5	2.1	-4.2
Current Transfer	2.3	3.8	3.0	17.8	17.5	17.7	14.7
Capital	19.7	52.0	34.8	18.2	25.0	21.6	-13.2
Infrastructure	15.7	21.9	18.6	16.4	10.0	13.2	-5.4
Construction	0.0	15.7	7.4	0.0	4.7	2.4	
Rehabilitation	15.7	6.2	11.3	16.4	5.3	10.8	
Equipment	1.0	9.8	5.1	0.8	10.1	5.4	0.3
Other Capital	2.6	2.6	2.6	0.9	3.2	2.1	-0.5
Studies	0.4	17.7	8.5	0.1	1.7	0.9	-7.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	
MDAs: Share of total sector expenditure							
	Rec	Dev	Total	Rec	Dev	Total	Change
Current	83.2	88.0	85.6	97.5	63.3	80.0	-5.6
PE	13.2	0.3	6.6	11.6	0.5	5.9	-0.7
Basic Salaries (incl Public Ent.)	13.2	0.3	6.6	10.9	0.0	5.3	
Pension	0.0	0.0	0.0	0.0	0.0	0.0	
Good and Services (incl. Public Ent.)	51.2	40.6	45.8	58.0	57.2	57.6	11.8
o/w Allowances	2.9	6.4	4.7	1.8	1.3	1.5	
o/w National Food Security and							
Fertilizer	32.8	16.8	24.6	23.1	17.0	20.0	-4.6
Maintenance	1.1	41.7	3.2	0.8	5.2	3.0	-0.2
Current Transfer	17.8	5.3	30.0	27.2	0.3	13.5	-16.5
Capital	16.8	12.0	14.4	2.5	36.7	20.0	5.6
Infrastructure	0.0	3.8	1.9	0.2	14.8	7.7	5.7
Construction	0.3	3.7	2.0	0.0	7.0	3.6	
Rehabilitation	1.1	4.7	2.9	0.2	7.9	4.1	
Equipment	2.1	4.9	3.5	0.8	14.9	8.0	4.5
Other Capital	0.5	3.3	2.0	1.3	4.8	3.1	1.1
Studies	14.1	0.0	6.9	0.2	2.3	1.2	-5.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	
LGAs : Share of total sector expenditure							
	Rec	Dev	Total	Rec	Dev	Total	Change
Current	99.9	38.9	71.7	51.8	99.3	75.1	3.4
PE	14.7	0.4	8.1	35.1	0.0	17.9	9.8
Basic Salaries	14.7	0.4	8.1	35.0	0.0	17.8	
Pension	0.0	0.0	0.0	0.0	0.0	0.0	
Good and Services	84.9	22.7	56.1	16.2	46.2	30.9	-25.2
o/w Allowances	1.1	9.7	5.1	1.5	0.1	0.8	
o/w National Food Security and							
Fertilizer	12.9	0.2	7.1	0.0	0.0	0.0	-7.0
Maintenance	0.2	15.3	7.2	0.4	0.1	0.2	-7.0
Current Transfer	0.0	0.6	0.3	0.0	53.1	26.0	25.7
Capital	0.1	61.1	28.3	48.2	0.7	24.9	-3.4
Infrastructure	0.0	31.4	14.5	47.4	0.1	24.2	9.7
Construction	0.0	27.0	12.5	0.0	0.0	0.0	
Rehabilitation	0.0	4.4	2.0	47.4	0.1	24.2	
Equipment	0.1	12.3	5.7	0.6	0.1	0.4	-5.3
Other Capital	0.0	3.3	1.6	0.2	0.0	0.1	-1.5
Studies	0.0	14.1	6.5	0.0	0.5	0.3	-6.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	

Source: Ministry of Finance.

Appendix 12: Government Expenditure – Road Sector

	2009/10			2010/11			
	Roads Sector Budget in Shares			Rec	Dev	Total	Change
Sector share in total budget	5.6	25.5	11.5	5.1	28.9	13.0	1.4
Shares of Sectoral budget							
MDA	72.2	92.0	85.2	76.6	85.4	83.1	-2.2
LGAs+Regions	27.8	8.0	14.8	23.4	14.6	16.9	2.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	2009/10			2010/11			
	Roads Sector = MDAs + LGAs : Sector expenditure in Shares						
	Rec	Dev	Total	Rec	Dev	Total	Change
Current	99.5	11.3	41.5	99.1	11.1	34.5	-6.9
PE	4.4	0.0	1.5	4.1	0.0	1.1	-0.4
Basic Salaries (incl Public	0.9	0.0	0.3	3.9	0.0	1.0	0.8
Pension	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Good and Services (incl. Public	3.1	10.4	7.9	4.5	7.2	6.5	-1.5
o/w Allowances	0.6	0.4	0.5	1.1	0.0	0.3	-0.2
Maintenance	76.2	0.9	26.6	67.7	3.9	20.8	-5.8
Current Transfer	15.8	0.0	5.4	22.9	0.1	6.1	0.7
Capital	0.5	88.7	58.5	0.9	88.9	65.5	6.9
Infrastructure	0.1	86.3	56.8	0.4	86.2	63.4	6.5
Construction	0.0	26.5	17.4	0.0	30.6	22.5	5.0
Rehabilitation	0.1	59.7	39.4	0.3	61.6	45.3	6.0
Equipment	0.3	1.4	1.0	0.4	0.7	0.6	-0.4
Other Capital	0.0	0.0	0.0	0.0	0.1	0.1	0.0
Studies	0.0	1.0	0.7	0.0	2.0	1.4	0.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	
	MDAs : Sector expenditure in Shares						
	Rec	Dev	Total	Rec	Dev	Total	Change
Current	99.7	11.4	37.0	99.8	9.5	31.7	-5.3
PE	1.2	0.0	0.3	1.0	0.0	0.2	-0.1
Basic Salaries (incl Public	1.2	0.0	0.3	1.0	0.0	0.2	-0.1
Pension	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Good and Services (incl. Public	2.9	11.2	8.8	3.1	8.4	7.1	-1.8
o/w Allowances	0.9	0.4	0.5	0.7	0.0	0.2	-0.4
Maintenance	73.8	0.1	21.4	65.9	1.1	17.0	-4.5
Current Transfer (incl PE)	21.9	0.0	6.4	29.9	0.1	7.4	1.0
Capital	0.3	88.6	63.0	0.2	90.5	68.3	5.3
Infrastructure	0.1	86.5	61.5	0.1	87.5	66.1	4.6
Construction	0.0	28.2	20.1	0.0	30.4	23.0	2.9
Rehabilitation	0.1	58.3	41.4	0.1	64.2	48.5	7.1
Equipment	0.1	1.4	1.1	0.1	0.8	0.6	-0.4
Other Capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Studies	0.0	0.7	0.5	0.0	2.1	1.6	1.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	
	LGAs : Sector expenditure in Shares						
	Rec	Dev	Total	Rec	Dev	Total	Change
Current	99.0	11.1	67.5	97.0	20.7	48.6	-18.9
PE	12.8	0.1	8.3	14.2	0.0	5.2	-3.0
Basic Salaries	0.0	0.1	0.0	13.8	0.0	5.0	5.0
Pension	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Good and Services	3.6	1.1	2.7	9.3	0.2	3.5	0.8
o/w Allowances	0.0	0.4	0.1	2.4	0.0	0.9	0.7
Maintenance	82.6	9.8	56.5	73.5	20.5	39.9	-16.6
Current Transfer	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital	1.0	88.9	32.5	3.0	79.3	51.4	18.9
Infrastructure	0.2	83.2	29.9	1.3	78.0	49.9	20.0
Construction	0.0	6.7	2.4	0.2	31.8	20.2	17.8
Rehabilitation	0.0	76.5	27.4	1.1	46.2	29.7	2.3
Equipment	0.8	0.8	0.8	1.5	0.1	0.6	-0.2
Other Capital	0.0	0.4	0.1	0.2	0.4	0.3	0.2
Studies	0.0	4.6	1.7	0.0	0.9	0.6	-1.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	

Source: Ministry of Finance.

Appendix 13: Government Expenditure – Energy Sector

	2009/10			2010/11			
	Rec	Dev	Total	Rec	Dev	Total	Change
Energy Sector Budget in Shares							
Sector share in total budget	0.8	6.1	2.4	0.8	6.8	2.8	0.4
Shares of Sectoral budget							
MDA	100.0	100.0	100.0	100.0	100.0	100.0	-
LGAs+Regions	0.0	0.0	0.0	0.0	0.0	0.0	-
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Energy Sector = MDAs + LGAs : Sector expenditure in Shares							
	2009/10			2010/11			
	Rec	Dev	Total	Rec	Dev	Total	Change
Current	95.7	27.7	44.3	97.6	11.1	34.5	-9.7
PE	9.4	0.2	2.4	5.3	0.0	1.1	-1.4
Basic Salaries (incl Public	0.0	0.0	0.0	4.9	0.0	1.0	1.0
Pension	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Good and Services (incl. Public	49.2	9.0	18.8	44.8	7.2	6.5	-12.3
o/w Allowances	0.0	0.0	0.0	4.0	0.0	0.3	0.3
Maintenance	1.5	1.3	1.4	1.5	3.9	20.8	19.5
Current Transfer	35.6	17.2	21.7	46.0	0.1	6.1	-15.5
Capital	4.3	72.3	55.7	2.4	74.6	60.1	4.3
Infrastructure	0.3	3.2	2.5	0.4	20.7	16.6	14.2
Construction	0.0	0.0	0.0	0.0	0.5	0.4	0.4
Rehabilitation	0.0	0.0	0.0	0.4	20.2	16.2	16.2
Equipment	3.4	32.7	25.6	1.9	41.1	33.2	7.6
Other Capital	0.0	0.4	0.3	0.0	0.1	0.1	-0.2
Studies	0.6	36.0	27.4	0.0	12.8	10.2	-17.2
Total	100.0	100.0	100.0	100.0	85.8	100.0	

Source: Ministry of Finance.

Appendix 14: Government Expenditure – Education Sector

	2009/10			2010/11			
	Education Sector Budget Shares						
	Rec	Dev	Total	Rec	Dev	Total	Total
Sector share in total budget	22.6	8.8	18.5	24.5	8.4	19.2	4.0
Shares of Sectoral budget							
MDA	33.2	59.8	36.9	34.5	56.6	37.6	0.7
LGAs+Regions	66.8	40.2	63.1	65.5	43.4	62.4	-0.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	2009/10			2010/11			
	Education Sector = MDAs + LGAs : Sector expenditure in Shares						
	Rec	Dev	Total	Rec	Dev	Total	Change
Current	99.6	43.1	91.7	99.6	30.7	89.7	-2.0
PE	64.8	0.0	55.7	65.4	0.0	56.0	0.4
Basic Salaries (incl Public Pension)	63.3	0.0	54.4	65.4	0.0	56.0	1.6
Good and Services (incl. Public o/w Allowances)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w Education materials	31.4	21.9	30.1	31.2	20.0	29.6	-0.5
Maintenance	4.8	4.7	4.8	2.7	0.8	2.4	-2.4
Current Transfer	13.4	11.6	13.1	12.3	8.4	11.7	-1.4
Capital	0.3	15.5	2.4	0.2	10.1	1.6	-0.8
Infrastructure	3.1	5.6	3.5	2.8	0.6	2.5	-1.0
Construction	0.4	56.9	8.3	0.4	69.3	10.3	2.0
Rehabilitation	0.0	48.5	6.8	0.1	52.9	7.6	0.8
Equipment	0.0	20.3	2.9	0.0	32.6	4.7	1.8
Other Capital	0.0	28.2	4.0	0.0	20.3	2.9	-1.0
Studies	0.3	1.6	0.5	0.3	2.0	0.6	0.1
Total	0.0	2.5	0.3	0.0	1.8	0.3	-0.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Education Sector = MDAs : Sector expenditure in Shares						
	Rec	Dev	Total	Rec	Dev	Total	Change
Current	99.3	39.6	85.7	99.7	34.5	85.6	-0.1
PE	36.9	0.0	28.5	48.4	0.0	38.0	9.5
Basic Salaries (incl Public Pension)	32.4	0.0	25.0	48.4	0.0	38.0	12.9
Good and Services (Public o/w Allowances)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w Education materials	52.4	13.0	43.4	43.4	29.1	40.3	-3.1
Maintenance	6.9	5.6	6.6	1.3	1.4	1.3	-5.3
Current Transfer	9.3	1.0	7.4	0.2	8.7	2.1	-5.3
Capital	0.5	17.3	4.4	0.1	4.3	1.0	-3.3
Infrastructure	9.5	9.3	9.4	7.7	1.1	6.3	-3.1
Construction	0.7	60.4	14.3	0.3	65.5	14.4	0.1
Rehabilitation	0.0	52.5	12.0	0.0	42.7	9.2	-2.7
Equipment	0.0	6.6	1.5	0.0	6.9	1.5	0.0
Other Capital	0.0	45.9	10.5	0.0	35.8	7.7	-2.7
Studies	0.7	2.7	1.1	0.3	3.6	1.0	-0.1
Total	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Education Sector = LGAs : Sector expenditure in Shares						
	Rec	Dev	Total	Rec	Dev	Total	Change
Current	99.8	48.2	95.2	99.6	25.8	92.2	-3.0
PE	78.6	0.0	71.6	74.4	0.0	67.0	-4.6
Basic Salaries	78.6	0.0	71.6	74.3	0.0	66.8	-4.7
Pension	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Good and Services	21.0	35.2	22.3	24.7	8.1	23.1	0.8
o/w Allowances	3.8	3.4	3.7	3.5	0.0	3.1	-0.6
o/w Education materials	15.4	27.3	16.5	18.6	8.1	17.5	1.1
Maintenance	0.1	12.9	1.3	0.2	17.8	2.0	0.7
Current Transfer	0.0	0.1	0.0	0.2	0.0	0.2	0.2
Capital	0.2	51.8	4.8	0.4	74.2	7.8	3.0
Infrastructure	0.0	42.4	3.8	0.1	66.1	6.7	2.8
Construction	0.0	40.5	3.6	0.0	66.1	6.6	3.0
Rehabilitation	0.0	1.9	0.2	0.1	0.0	0.1	-0.2
Equipment	0.2	0.0	0.2	0.3	0.0	0.3	0.1
Other Capital	0.0	6.1	0.6	0.0	4.0	0.4	-0.1
Studies	0.0	3.2	0.3	0.0	4.0	0.4	0.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Finance.

Appendix 15: Government Expenditure – Health Sector

	2009/10			2010/11			
	Health Sector Budget Shares						
Sector share in total budget	Rec	Dev	Total	Rec	Dev	Total	Change
Shares of Sectoral budget	7.4	10.7	8.4	7.5	16.3	10.4	4.0
MDA	50.1	51.9	50.7	51.1	75.5	63.7	13.0
LGAs+Regions	49.9	48.1	49.3	48.9	24.5	36.3	-13.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	2009/10			2010/11			
	Health Sector = MDAs + LGAs : Sector expenditure in Shares						
Current	Rec	Dev	Total	Rec	Dev	Total	Change
PE	98.2	80.5	91.5	99.0	82.9	90.7	-0.8
Basic Salaries (incl Public Ent.)	54.1	0.3	33.7	51.9	0.4	25.3	-8.4
Pension	0.0	0.1	0.0	41.9	0.0	20.2	20.2
Good and Services (incl. Public Ent.)	7.5	0.2	4.7	0.0	0.0	0.0	-4.7
o/w Allowances	28.5	55.8	38.9	21.5	78.9	51.2	12.3
o/w Medical supplies	2.9	2.5	2.7	3.0	0.1	1.5	-1.2
Maintenance	9.4	47.1	23.7	10.7	67.9	40.3	16.6
Current Transfer	1.2	3.2	2.0	1.0	0.2	0.6	-1.4
Current Transfer	14.3	21.2	16.9	24.6	3.5	13.7	-3.2
Capital	1.8	19.5	8.5	1.0	17.1	9.3	0.8
Infrastructure	0.1	15.5	6.0	0.1	10.5	5.5	-0.4
Construction	0.0	6.4	2.4	0.0	6.0	3.1	0.7
Rehabilitation	0.1	9.1	3.5	0.1	4.5	2.4	-1.1
Equipment	1.6	2.9	2.1	0.8	6.2	3.6	1.5
Other Capital	0.1	0.3	0.2	0.0	0.0	0.0	-0.1
Studies	0.1	0.8	0.3	0.0	0.3	0.2	-0.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Health Sector = MDAs : Sector expenditure in Shares						
Current	Rec	Dev	Total	Rec	Dev	Total	Change
PE	97.4	70.7	87.0	99.4	80.0	55.8	-31.3
Basic Salaries (incl Public Ent.)	36.7	0.4	22.6	27.0	0.6	6.9	-15.8
Pension	0.0	0.0	0.0	8.1	0.0	2.0	2.0
Good and Services (incl. Public Ent.)	15.0	0.4	9.3	0.0	0.0	0.0	-9.3
o/w Allowances	30.6	25.9	28.8	23.4	74.8	35.0	6.2
o/w Medical supplies	3.2	0.4	2.1	1.5	0.0	0.4	-1.7
Maintenance	17.2	16.1	16.8	14.7	60.8	27.4	10.6
Current Transfer (incl PE)	1.6	3.6	2.4	0.8	0.1	0.3	-2.1
Current Transfer (incl PE)	28.5	40.8	33.3	48.1	4.6	13.7	-19.6
Capital	2.6	29.3	13.0	0.6	20.0	7.9	-5.0
Infrastructure	0.0	23.8	9.2	0.0	11.7	4.6	-4.7
Construction	0.0	8.0	3.1	0.0	6.2	2.4	-0.7
Rehabilitation	0.0	15.9	6.2	0.0	5.5	2.2	-4.0
Equipment	2.4	4.2	3.1	0.6	8.2	3.3	0.3
Other Capital	0.1	0.4	0.2	0.0	0.1	0.0	-0.2
Studies	0.1	0.9	0.4	0.0	0.0	0.0	-0.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Health Sector = LGAs : Sector expenditure in Shares						
Current	Rec	Dev	Total	Rec	Dev	Total	Change
PE	99.0	91.0	96.0	98.6	91.9	96.3	0.2
Basic Salaries	71.6	0.2	45.1	77.8	0.1	50.7	5.6
Pension	0.0	0.2	0.1	77.0	0.0	50.1	50.1
Good and Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w Allowances	26.5	88.0	49.3	19.5	91.5	44.6	-4.7
o/w Medical supplies	2.6	4.7	3.4	4.6	0.2	3.1	-0.3
Maintenance	1.5	80.5	30.8	6.5	89.8	35.6	4.8
Current Transfer	0.9	2.7	1.6	1.2	0.3	0.9	-0.6
Current Transfer	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Capital	1.0	9.0	4.0	1.4	8.1	3.7	-0.2
Infrastructure	0.2	6.6	2.6	0.3	6.9	2.6	0.0
Construction	0.0	4.7	1.8	0.1	5.5	2.0	0.2
Rehabilitation	0.2	1.8	0.8	0.2	1.4	0.6	-0.2
Equipment	0.8	1.5	1.1	0.9	0.1	0.6	-0.4
Other Capital	0.0	0.2	0.1	0.1	0.0	0.1	0.0
Studies	0.0	0.7	0.3	0.1	1.1	0.4	0.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Finance.

Appendix 16: Government Expenditure – Water Sector

	2009/10			2010/11			
	Rec	Dev	Total	Rec	Dev	Total	Change
Water Sector Budget share							
Sector share in total budget	0.6	10.9	3.6	0.6	8.7	3.3	-0.4
Shares of Sectoral budget							
MDA	44.4	78.7	75.0	35.1	77.2	72.2	-2.8
LGAs+Regions	55.6	21.3	25.0	64.9	22.8	27.8	2.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	
2009/10							
Water Sector = MDAs + LGAs : Sector expenditure in share							
	Rec	Dev	Total	Rec	Dev	Total	Change
Current	96.0	79.9	81.7	95.6	61.9	65.9	-15.7
PE	46.7	0.4	5.4	43.1	0.6	5.6	0.2
Basic Salaries (incl Public)	23.4	0.0	2.6	42.4	0.0	5.0	2.5
Pension	3.2	0.0	0.3	0.0	0.0	0.0	-0.3
Good and Services (incl. Public	38.5	6.3	9.8	28.9	5.4	8.2	-1.6
o/w Allowances	0.0	0.4	0.3	5.7	0.0	0.7	0.4
Maintenance	7.4	11.9	11.4	21.1	3.2	5.4	-6.0
Current Transfer	3.3	61.3	55.1	2.5	52.7	46.8	-8.3
Capital	4.0	20.1	18.3	4.4	38.1	34.1	15.7
Infrastructure	1.5	9.4	8.5	2.7	32.8	29.2	20.7
Construction	0.0	4.9	4.3	0.5	22.9	20.3	15.9
Rehabilitation	0.0	0.5	0.5	2.2	9.9	8.9	8.5
Equipment	1.8	5.2	4.9	1.0	0.6	0.6	-4.2
Other Capital	0.0	0.2	0.2	0.2	0.0	0.0	-0.2
Studies	0.7	5.2	4.7	0.5	4.7	4.2	-0.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	
2010/11							
Water Sector = MDAs : Sector expenditure in share							
	Rec	Dev	Total	Rec	Dev	Total	Total
Current	97.6	84.0	84.9	98.2	76.3	77.6	-7.3
PE	47.8	0.0	3.1	62.4	0.8	4.3	1.3
Basic Salaries (incl Public)	47.8	0.0	3.1	62.2	0.0	3.6	0.5
Pension	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Good and Services (incl. Public	41.0	5.7	8.0	27.6	6.9	8.1	0.2
o/w Allowances	0.0	0.0	0.0	6.2	0.0	0.4	0.4
Maintenance	1.7	0.3	0.4	1.3	0.3	0.4	0.0
Current Transfer (incl PE)	7.2	78.0	73.4	7.0	68.3	64.7	-8.7
Capital	2.4	16.0	15.1	1.8	23.7	22.4	7.3
Infrastructure	0.0	5.0	4.7	0.0	16.8	15.9	11.2
Construction	0.0	0.0	0.0	0.0	4.1	3.9	3.9
Rehabilitation	0.0	0.0	0.0	0.0	12.8	12.0	12.0
Equipment	1.0	6.5	6.1	0.7	0.7	0.7	-5.4
Other Capital	0.0	0.3	0.3	0.0	0.0	0.0	-0.3
Studies	1.3	4.2	4.0	1.0	6.1	5.8	1.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	
Water Sector = LGAs : Sector expenditure in share							
	Rec	Dev	Total	Rec	Dev	Total	Total
Current	94.7	65.0	72.2	93.1	13.3	35.5	-36.6
PE	45.9	2.0	12.5	32.2	0.0	9.0	-3.6
Basic Salaries	42.1	0.2	10.3	31.2	0.0	8.7	-1.6
Pension	5.7	0.0	1.4	0.0	0.0	0.0	-1.4
Good and Services	36.5	8.4	15.2	29.2	0.1	8.2	-7.0
o/w Allowances	0.0	1.8	1.3	5.4	0.0	1.5	0.2
Maintenance	12.0	54.6	44.3	31.5	13.2	18.3	-26.1
Current Transfer	0.2	0.0	0.1	0.1	0.0	0.0	0.0
Capital	5.3	35.0	27.8	6.9	86.7	64.5	36.6
Infrastructure	2.7	25.4	19.9	4.2	86.7	63.7	43.8
Construction	0.0	22.8	17.3	0.8	86.6	62.7	45.4
Rehabilitation	0.0	2.5	1.9	3.4	0.0	1.0	-1.0
Equipment	2.3	0.7	1.1	1.1	0.0	0.3	-0.8
Other Capital	0.0	0.1	0.1	0.4	0.0	0.1	0.0
Studies	0.3	8.8	6.7	0.2	0.0	0.1	-6.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	

Source: Ministry of Finance.

Appendix 17: MDAs Budget Estimates and Expenditure (In Billion Tanzania Shilling)

Vote	Vote description	2008/2009 Actual					2009/2010 Approved estimates					2010/2011 Estimates				
		RECURRENT		DEV		TOTAL	RECURRENT		DEV		TOTAL	RECURRENT		DEV		TOTAL
		PE	OC	LOCAL	FOREIGN		PE	OC	LOCAL	FOREIGN		PE	OC	LOCAL	FOREIGN	
12	Judiciary Service Commission	0.1	0.6	-	-	0.7	0.1	0.9	-	0.1	1.2	0.1	0.9	-	-	1.0
14	Fire and Rescue Force	-	-	-	-	-	1.2	3.1	3.0	-	7.3	1.3	2.2	0.9	-	4.4
15	Commission for Mediation and Arbitration	-	-	-	-	-	0.7	1.3	-	1.1	3.2	0.5	0.9	-	0.7	2.0
16	Attorney General's Office	-	-	-	-	-	4.5	7.6	-	7.4	19.4	1.3	8.1	-	0.4	9.9
18	High Court	-	-	-	-	-	9.0	8.8	1.7	0.8	20.3	7.9	9.3	-	-	17.2
19	District and Primary Courts	-	-	-	-	-	4.2	6.1	2.0	7.5	19.9	11.7	6.6	-	-	18.3
20	State House	1.4	4.5	-	-	5.9	1.8	5.4	-	-	7.2	2.8	6.0	-	-	8.8
21	The Treasury	-	-	-	-	-	69.7	528.0	10.2	63.8	671.6	298.7	663.3	50.8	49.2	1,062.1
22	Public Debt and General Services	1.9	607.3	-	-	609.1	233.1	1,282.7	-	-	1,515.8	551.1	1,196.2	-	-	1,747.2
23	Accountant General's Department	2.4	93.9	0.4	5.8	102.4	34.4	63.2	6.0	6.1	109.7	2.8	79.6	4.2	6.1	92.6
24	Cooperative Development Commission	-	-	-	-	-	-	-	-	-	-	0.5	6.1	0.1	-	6.7
25	Prime Minister	0.3	3.0	-	-	3.4	0.4	5.0	-	-	5.5	0.5	5.0	-	-	5.5
26	Vice President	0.5	2.0	-	-	2.5	0.5	4.0	-	-	4.5	0.5	4.0	-	-	4.5
27	Registrar of Political Parties	0.2	17.8	-	-	18.0	0.3	19.7	0.1	0.3	20.3	0.3	19.1	0.1	0.0	19.5
28	Ministry of Home Affairs - Police Force	66.4	75.0	5.3	0.3	146.9	92.6	99.1	19.9	3.0	214.5	111.2	137.1	17.0	2.0	267.3
29	Ministry of Home Affairs - Prison Services	27.1	40.3	2.6	2.0	72.0	48.2	52.0	10.0	3.0	113.2	44.7	49.5	9.6	2.0	105.8
30	President's Office and Cabinet Secretariat	0.8	120.4	10.3	59.3	190.8	1.3	157.2	13.0	34.4	205.9	1.1	170.2	17.8	49.5	238.6
31	Vice President's Office	0.7	34.8	3.8	9.8	49.1	1.0	62.4	8.6	7.2	79.3	0.9	40.6	6.1	17.4	65.0
32	President's Office - Public Service Management	1.8	8.1	6.2	21.4	37.5	2.3	15.1	3.6	17.1	38.2	2.6	14.0	4.5	18.1	39.1
33	Ethics Secretariat	0.6	0.9	-	-	1.5	0.7	2.0	-	0.5	3.2	0.7	1.6	0.5	0.7	3.5
34	Ministry of Foreign Affairs and Inten. Co-op.	2.5	56.5	-	-	59.0	9.5	58.3	20.0	0.3	88.0	9.6	58.2	44.5	-	112.3
35	Public Prosecutions Division	-	-	-	-	-	-	-	-	-	-	3.7	3.0	-	1.5	8.2
37	Prime Minister's Office	1.6	10.7	4.9	18.9	36.1	2.2	23.2	9.8	35.7	71.0	10.3	19.5	8.0	31.3	69.1
38	Defence	107.4	91.2	-	0.2	198.9	174.6	138.1	20.0	-	332.7	224.1	134.2	18.5	-	376.7
39	National Service	23.5	24.1	-	0.2	47.9	27.9	41.1	13.5	-	82.6	50.1	38.3	12.6	-	101.1
40	Judiciary	12.0	25.1	3.3	0.4	40.7	2.2	7.5	1.4	4.6	15.7	1.3	8.6	6.1	22.1	38.1
41	Ministry of Constitutional Affairs and Justice	2.3	7.1	0.4	12.4	22.2	0.6	6.3	1.1	9.6	17.5	0.6	5.1	1.0	4.0	10.7
42	The National Assembly Fund	5.5	36.9	0.2	0.2	42.7	7.2	54.9	5.6	0.5	68.3	7.8	44.8	3.8	0.5	56.9
43	Ministry of Agriculture, Food Security and Coop.	11.3	60.6	6.8	53.3	131.9	14.2	121.6	2.4	90.3	228.6	14.2	135.2	3.4	100.5	253.4
44	Ministry of Industry, Trade and Marketing	1.2	16.0	1.3	6.1	24.6	1.4	25.1	19.3	9.9	55.7	1.7	29.8	16.4	12.5	60.5
45	National Audit Office	1.6	8.4	-	2.3	12.4	3.2	14.0	2.8	5.5	25.6	3.2	23.4	4.8	5.8	37.2
46	Ministry of Education and Vocational Training	103.6	51.9	14.4	95.9	265.7	25.2	352.5	66.1	63.7	507.5	27.1	498.8	56.2	83.4	665.6
48	Ministry of Lands and Human Settlements Dev.	3.9	8.8	1.8	0.2	14.7	6.1	15.4	2.3	9.7	33.5	6.6	25.0	4.7	17.6	53.8
49	Ministry of Water and Irrigation	4.7	8.8	70.8	154.2	238.4	9.7	9.6	50.5	195.2	264.9	11.9	6.5	41.6	191.5	251.5
50	Ministry of Finance and Economic Affairs	2.5	250.4	4.1	29.6	286.6	2.8	94.2	6.0	182.2	285.2	3.0	91.3	7.3	271.6	373.2
51	Ministry of Home Affairs	1.6	2.3	0.9	-	4.9	1.6	4.5	5.7	0.8	12.6	1.6	3.5	3.5	0.1	8.7
52	Ministry of Health and Social Welfare	16.0	171.6	6.8	175.2	369.6	22.6	195.8	13.2	247.4	479.0	32.8	197.2	9.9	438.6	678.4
53	Ministry of Community Dev, Gender and Children	3.0	4.2	2.7	1.2	11.0	8.7	5.9	5.2	1.9	21.7	6.6	5.0	6.8	1.5	19.9
55	Commission for Human Rights and Good Gov.	1.0	1.6	-	0.1	2.7	1.1	3.5	-	1.3	5.9	1.3	2.4	-	1.1	4.8
56	Prime Minister's Office - Reg. Adm. and Local Gov.	2.1	87.3	4.5	23.4	117.3	2.4	122.0	7.6	65.9	197.9	18.8	36.2	13.5	26.8	95.3
57	Ministry of Defence and National Service	0.7	8.2	54.0	-	62.9	0.8	12.6	14.4	0.3	28.1	0.9	13.7	129.0	0.1	143.7
58	Ministry of Energy and Minerals	2.7	38.8	196.7	115.7	354.0	5.2	50.1	96.6	75.0	226.9	3.5	62.5	124.9	59.1	249.9
59	Law Reform Commission	0.2	0.6	-	-	0.8	0.3	1.0	-	1.2	2.5	0.4	0.9	-	0.9	2.2
60	Industrial Court of Tanzania	0.1	0.6	-	0.6	1.3	0.2	1.0	-	0.6	1.8	0.2	1.0	-	1.8	3.1
61	Electoral Commission	0.4	10.0	-	-	10.4	0.5	11.3	-	6.7	18.5	0.8	61.3	-	5.7	67.8
64	Commercial Court	0.2	0.7	0.2	0.2	1.2	0.2	1.0	0.1	0.5	1.8	0.2	0.9	0.1	0.5	1.7
65	Ministry of Labour, Employment and Youth Dev.	1.5	5.3	2.4	1.7	10.9	1.9	7.1	2.0	5.9	17.0	1.8	7.2	1.5	5.1	15.6
66	President's Office - Planning Commission	1.9	19.5	15.7	38.0	75.2	1.1	7.2	-	0.2	8.6	0.9	4.8	-	0.2	5.9
67	Public Service Recruitment Secretariat	-	-	-	-	-	-	-	-	-	-	0.7	2.3	-	1.0	4.0
68	Ministry of Communication, Science and Techn.	1.1	239.4	28.4	19.1	287.9	0.8	23.5	14.0	0.4	38.7	0.9	25.6	42.4	2.0	71.0
69	Ministry of Natural Resources and Tourism	9.5	21.3	1.7	23.0	55.5	11.4	33.4	1.2	24.8	70.8	12.8	42.6	0.1	10.0	65.5
90	Land Court	0.1	0.7	-	-	0.8	0.1	1.0	-	0.5	1.7	0.2	0.9	-	0.5	1.6
91	Anti Drug Commission	0.1	1.0	-	0.4	1.5	0.2	1.0	-	0.1	1.4	0.2	0.9	-	0.1	1.3
92	TACAIDS (Tanzania Commission for AIDS)	0.6	3.0	-	49.6	53.3	1.1	3.0	-	22.5	26.7	1.7	1.8	-	20.6	24.2
93	Immigration Department	5.9	7.4	4.0	0.5	17.8	13.3	15.4	9.9	9.1	47.7	12.6	20.7	25.8	1.0	60.1
94	Public Service Commission	4.2	3.6	-	-	7.8	3.8	5.5	-	0.7	10.0	3.9	4.1	-	0.1	8.1
96	Ministry of Information, Culture and Sports	1.2	9.8	4.8	0.2	16.0	1.9	13.9	6.3	0.3	22.4	1.8	12.5	4.5	-	18.7
97	Ministry for East African Cooperation	0.3	7.7	-	-	8.0	0.6	13.7	-	0.1	14.4	0.8	12.3	-	-	13.1
98	Ministry of Infrastructure Development	3.9	204.7	225.5	252.9	687.0	3.2	267.6	340.1	230.4	841.3	2.9	290.5	370.9	500.7	1,165.0
99	Ministry of Livestock Development and Fisheries	5.7	6.9	1.4	8.4	22.4	10.0	27.3	9.6	20.5	67.3	10.8	23.2	8.7	16.0	58.8
	MDAs total	451.6	2,521.1	685.9	1,182.7	4,841.2	857.8	2,869.5	876.5	1,224.8	7,301.3	1,535.7	4,376.1	1,082.1	1,982.0	8,975.9

Source: Ministry of Finance

Appendix 18: Regional Budget Estimates and Expenditure

VOTE NO	Vote description	2008/2009 Actual					2009/2010 Approved estimates					2010/2011 Estimates				
		RECURRENT		DEV		TOTAL	RECURRENT		DEV		TOTAL	RECURRENT		DEV		TOTAL
		PE	OC	LOCAL	FOREIGN		PE	OC	LOCAL	FOREIGN		PE	OC	LOCAL	FOREIGN	
70	Arusha Region	28.6	10.4	2.7	13.3	16.0	4.1	77.4	7.8	15.6	104.9	4.1	86.5	8.1	26.5	125.2
71	Coast Region	23.5	9.3	1.5	15.0	25.8	1.4	57.1	6.0	14.2	78.7	1.5	65.3	10.0	14.1	91.0
72	Dodoma Region	33.1	10.2	2.0	14.3	26.4	3.4	73.6	6.7	16.7	100.4	3.6	83.4	17.5	22.7	127.2
73	Iringa Region	37.1	10.6	1.7	16.8	29.1	3.4	82.2	11.4	17.0	114.0	4.0	101.2	15.3	22.1	142.6
74	Kigoma Region	25.0	8.8	2.0	10.3	21.1	2.0	54.8	1.6	23.5	81.9	2.3	58.6	12.8	28.2	101.9
75	Kilimanjaro Region	45.3	9.0	1.2	6.6	16.8	3.6	96.7	5.0	16.7	121.9	4.4	105.3	12.2	19.7	141.6
76	Lindi Region	18.0	7.3	2.6	12.7	22.6	2.5	41.9	6.0	12.8	63.3	2.5	45.5	8.7	13.6	70.3
77	Mara Region	29.9	10.7	3.8	9.0	23.5	2.9	71.8	7.2	16.5	98.3	3.1	78.2	13.9	17.4	112.5
78	Mbeya Region	44.6	13.5	2.1	14.2	29.9	2.4	107.0	8.5	23.0	140.9	2.3	115.9	15.6	34.0	167.7
79	Morogoro Region	37.9	10.3	1.9	15.7	28.0	4.4	82.5	8.6	19.9	115.4	4.6	99.2	15.4	26.4	145.5
80	Mtwara Region	22.5	8.5	1.9	13.2	23.5	2.3	54.8	5.7	14.4	77.2	2.5	60.0	11.2	20.7	94.4
81	Mwanza Region	48.9	18.0	2.4	20.8	41.3	3.5	131.5	10.4	28.3	173.8	3.4	146.0	20.2	35.9	205.5
82	Ruvuma Region	27.5	7.7	1.9	17.2	26.8	3.8	60.0	6.6	15.5	85.9	3.9	64.3	11.6	17.4	97.2
83	Shinyanga Region	40.9	18.7	1.9	18.1	38.6	2.7	101.7	8.0	28.7	141.1	2.9	113.1	17.5	32.9	166.3
84	Singida Region	21.2	7.7	1.7	9.2	18.6	2.5	48.5	5.4	13.0	69.4	2.5	50.8	9.8	14.1	77.3
85	Tabora Region	26.5	12.6	2.2	10.6	25.3	2.5	62.0	5.5	17.6	87.6	2.5	74.3	13.6	19.7	110.2
86	Tanga Region	39.2	12.3	2.5	16.4	31.2	3.5	89.1	7.2	21.4	121.2	3.8	102.5	13.8	28.2	148.2
87	Kagera Region	33.6	13.1	1.7	16.9	31.7	2.7	85.2	7.4	24.3	119.7	3.4	91.0	16.3	24.3	135.1
88	Dar es Salaam Region	41.5	12.4	11.1	12.2	35.6	1.0	152.9	5.0	16.1	175.0	1.1	162.7	14.9	17.6	196.3
89	Rukwa Region	19.9	8.7	2.6	8.7	20.0	2.3	47.1	6.5	14.6	70.5	2.3	53.7	12.7	20.5	89.2
95	Manyara Region	20.2	8.4	1.7	8.2	18.3	1.2	53.4	5.9	14.2	74.6	1.5	59.1	11.9	15.9	88.4
	Regions total	664.8	228.3	53.3	279.2	550.3	57.8	1,631.2	142.4	384.1	2,215.5	62.1	1,816.6	283.1	471.9	2,633.6
	Grand total (MDAs + Regions)	1,116.4	2,749.3	739.2	1,461.9	6,066.8	899.3	3,827.4	938.5	1,550.5	9,516.9	1,597.9	6,192.7	1,365.2	2,453.9	11,609.6

Source: Ministry of Finance.

TANZANIA

- SELECTED CITIES AND TOWNS
- ⊙ PROVINCE CAPITALS
- ⊕ NATIONAL CAPITAL
- RIVERS
- MAIN ROADS
- RAILROADS
- PROVINCE BOUNDARIES
- - - INTERNATIONAL BOUNDARIES

