

ANNUAL NATIONAL POLICY DIALOGUE

PUBLIC EXPENDITURE REVIEW

MEDIUM TERM STRATEGY AND CROSS CLUSTER MTEF

December 3, 2010

Outline

- Introduction
- Recent economic performance
- Public financial management
- Budget strategy and medium term expenditure framework
- Aid management and effectiveness
- Conclusion

Introduction

- The Public Expenditure Review is a year long dialogue which brings together various stakeholders to discuss development issues.
- The following are PER cluster working groups:
 - growth and reduction of income poverty;
 - improvement of quality of life and social well being;
 - governance and accountability; and
 - macro and public financial management.

Introduction *contd...*

- The PER Main is the umbrella working group which oversees the functioning of cluster working groups and is chaired by the Deputy Permanent Secretary.
- The government has taken steps to spearhead the initiative to strengthen PER process during 2010 and going forward. It is expected that the budget for 2010/11 will benefit from the output of PER and inputs will be drawn for budget cycle 2011/12 and the medium term.

Recent Economic Performance

- Tanzania has continued to sustain strong macroeconomic performance despite the impact of the global and financial crisis:
 - Real GDP growth for 2009 was 6.0% compared to 5.5% projected, and 7.4% recorded in 2008.
- The inflationary pressure has eased with the headline inflation registering at 4.2% in October 2010, a notable decline from its high of 12.7% in October 2009:
 - Food inflation declined to 4.4% in October 2010 from 18.1% in October 2009
 - Non food inflation also declined from 4.4% in October 2009 to 3.9 percent in 2010

Government Finance

- **Domestic revenue** collections in 2009/10 were 8 percent lower than budgeted and overall growth of 10% compared to the levels in 2008/09.
 - impact of the GFC that led to slower growth in taxable activities in the economy.
 - postponement of some revenue measures whose implementation would affect adversely some activities including tourism, at the onset of the GFC.
- The budget implementation continued to be on cash basis, therefore, expenditure for 2009/10 was broadly in line with available resource, with 92 percent performance against the estimates.
- During 2009/10, Tanzania continued to receive grants and concessional loans from Development partners.
- The net domestic financing equivalent to 1.9% of GDP was used to finance budget during 2009/10.

PUBLIC FINANCIAL MANAGEMENT

- Good progress has been made in strengthening public financial management
 - Starting in 2009/10 the GoT introduced economic classification of budget in line with GFS 2001 Manual. Annual Accounts are being prepared using the International Public Sector Accounting Standards (IPSAS) format.
 - In 2010/11 the Government adopted the functional classification of budget items.
 - Government has started using the electronic payment system since July 2010 for MDAs and Dar es Salaam Region. Thus payments are now made using TISS.
 - Amendments to the Public Finance Act, 2004 (CAP 348) were passed by the Parliament in July 2010:
 - provided for the establishment of a centralized independent Internal Audit Department
 - empowered the Treasury through the Accountant General to control the use of public funds in Local Authorities

PFM *cont'd...*

- significant improvement in audited reports by CAG.
 - Unqualified audit opinions increased from 70% in 2007/08 to 86% in 2008/09
 - Qualified audit opinions decreased from 26% to 11%
 - adverse opinions decreased from 5 percent to 3 percent
- The Office of TR has become an autonomous authority and will oversee management and operations of public corporations and institutions

Public Private partnership

- Promotion of private sector participation: PPP Act was approved in July 2010 and provides for:
 - The scope of PPP operations and the role of various stakeholders
 - PPP Unit has been established at MoFEA to manage associated fiscal risks
 - PPP strategy and regulatory framework are being developed to implement the Law

BUDGET STRATEGY AND MTEF

- The Govt. will continue to sustain macroeconomic stability through implementation of prudent monetary and fiscal policies
- Consistent with MKUKUTA II:
 - scale up investment in agriculture and infrastructure development
 - strengthen domestic revenue collection to increase domestic saving and finance a share of development spending
 - Develop debt management and investment capacity to tap new financing sources and use them well.
 - Contain the growth of recurrent spending

Approved Budget for 2010/11

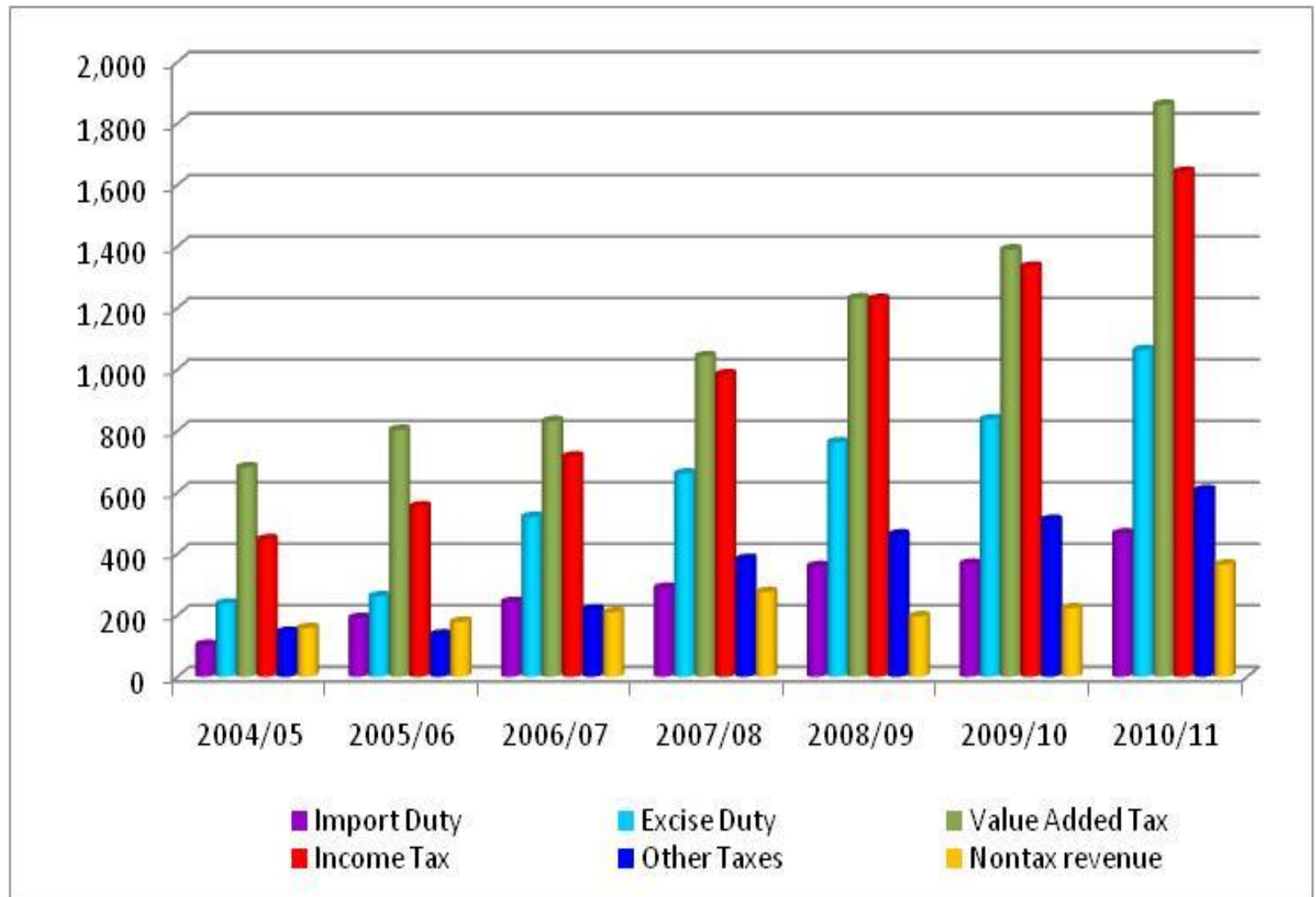
- Assumptions

- sustaining macroeconomic stability
- continued recovery in economic activities
- implementation of MKUKUTA II
- continue benefitting from foreign aids
- domestic revenue projection
 - Seasonally adjusted likely outturn was used and relevant macroeconomic assumptions, plus revenue measure. The assumptions include: real growth rate, inflation, imports and exchange rate

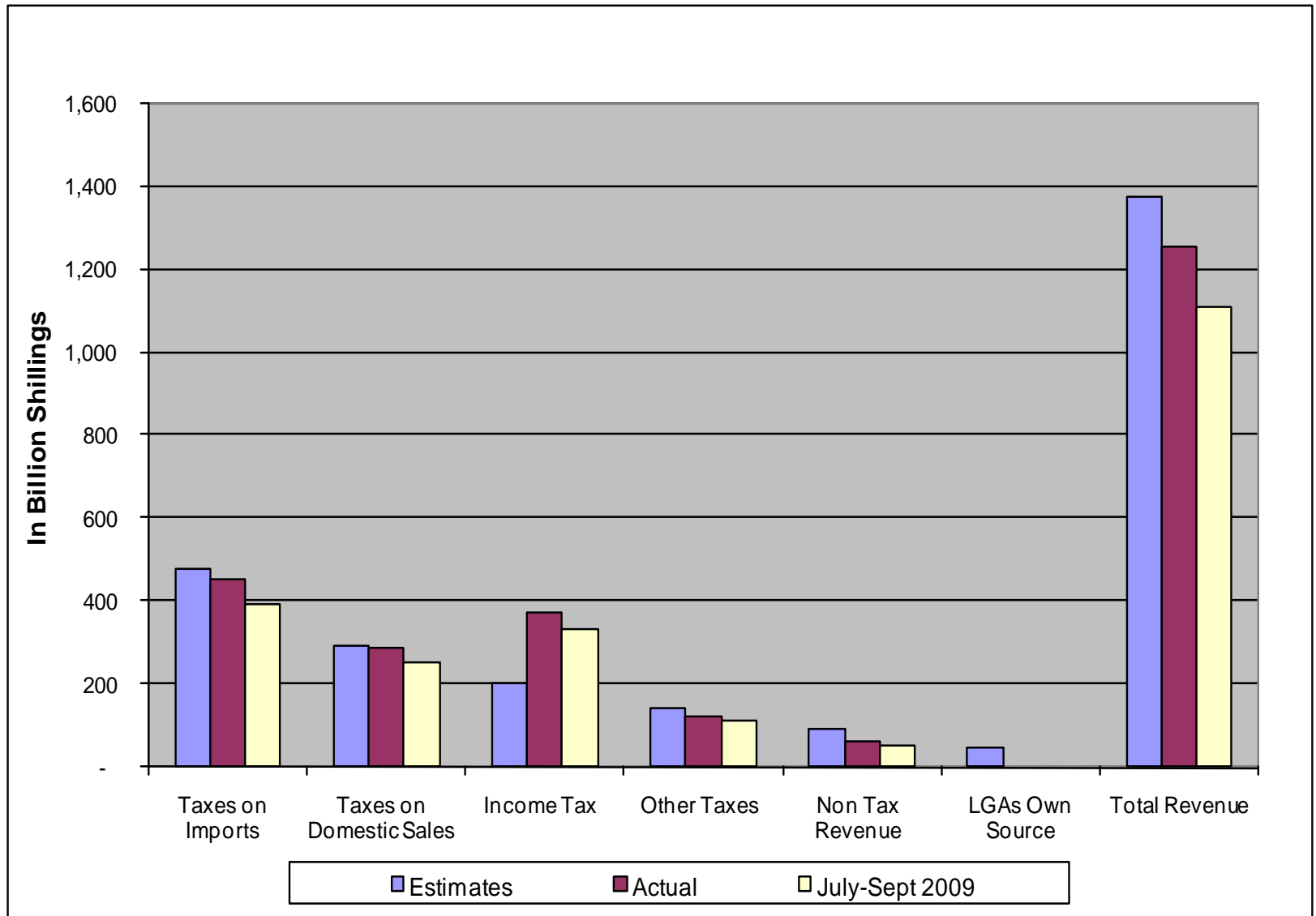
Approved Budget for 2010/11 *Cont'd*

- Domestic revenue TShs. 6,003.6 billion including LGAs own revenue TShs. 172.6 billion
- Total expenditure of TShs. 11,609.6 billion, of which development spending is TShs. 3,819.1 billion.
- The grants of TShs. 2,020.9 and the deficit after grants is being financed from external concessional and non-concessional loans as well as domestic borrowing

Trend in Domestic revenue collection



Revenue Performance July-September 2010



Domestic revenue

- Some medium term measures to widen the tax base and bring the informal sector into the tax net
 - Harmonize taxpayers' registration database
 - Implement properties and businesses formalization programme – MKURABITA
 - Implement the national identity cards project
 - Implement physical postal codes in the block management system (BMS).
 - Implement policy and administrative measures to manage and control tax exemptions to bring tax efficiency rates in line with the region.

Allocation for MKUKUTA

	2009/10		2010/11	
	% of MKUKUTA	% of Overall	% of MKUKUTA	% of Overall
Cluster I	39.2%	27.9%	44.9%	32.8%
Cluster II	42.7%	30.4%	39.7%	29.1%
Cluster III	15.0%	10.7%	13.9%	10.2%
Cross Cutting	3.1%	2.2%	1.5%	1.1%
Total MKUKUTA	100.0%	71.2%	100.0%	73.2%
Non - MKUKUTA		28.8%		26.8%
Grand Total		100.0%		100.0%
Total Expenditure (TShs billion)		9,513.7		11,609.6

MKUKUTA *Cont'd*

- Allocation to Cluster I includes resources for implementation of Kilimo Kwanza, electricity and roads projects, maintenance of road infrastructures
- Cluster II to be funded include:
 - sustaining social gains in education and health sectors in order to ensure equitable access to quality education at all levels
 - improving survival, health, nutrition and wellbeing especially for children, women and vulnerable groups
 - ensure access to affordable safe and clean water, sanitation and hygiene;
 - providing adequate social protection and rights to the vulnerable and needy groups.

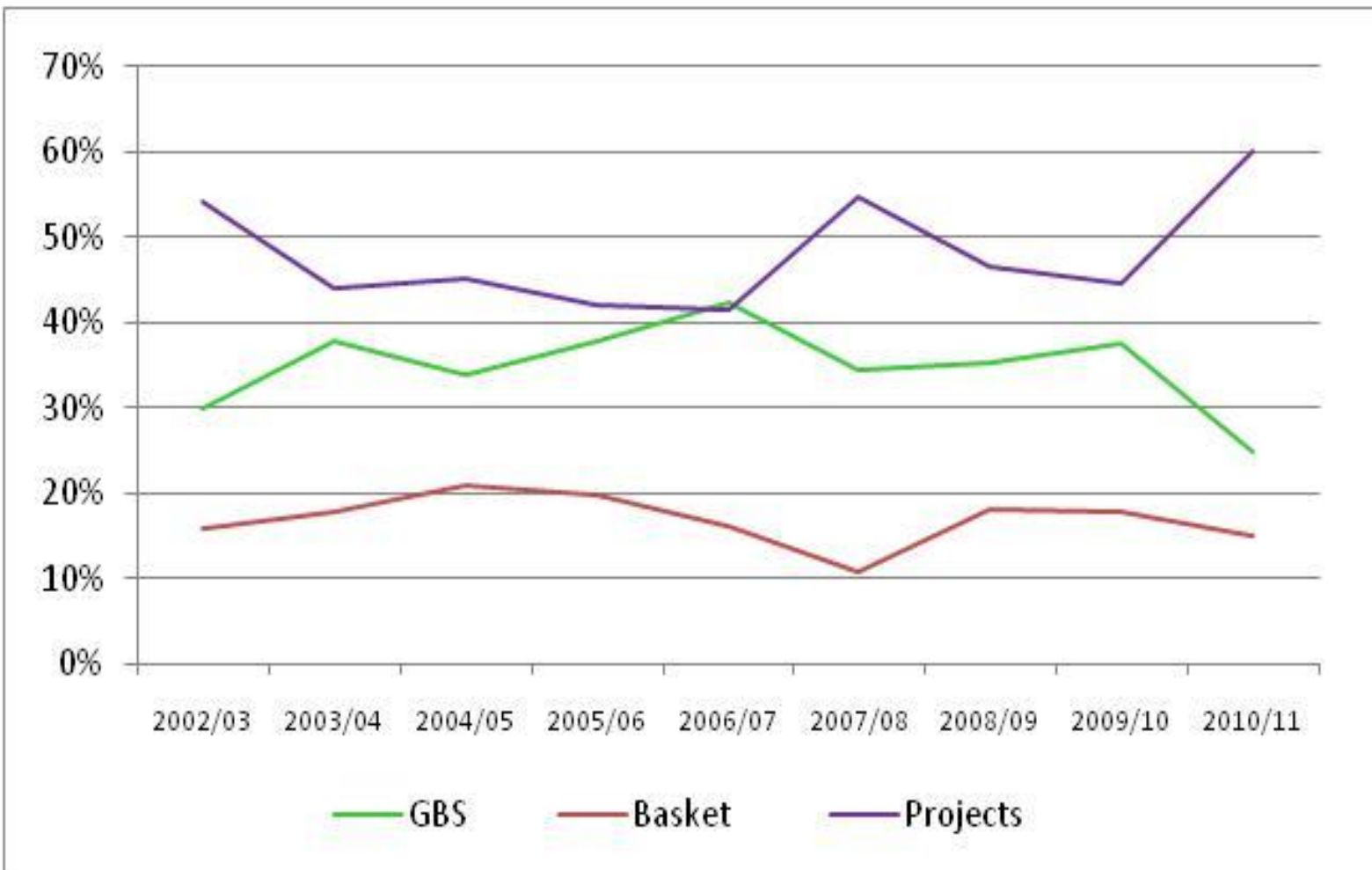
MKUKUTA *Cont'd*

- Allocations to Cluster III will facilitate implementation of interventions aims at:
 - deepening democracy, promoting human rights and rule of law; ensuring peace, political stability, social cohesion and national unity;
 - improving accountability, responsiveness, effectiveness and efficiency of public leadership; and ensuring equity in accessing public resources and services.
 - Medium term focus: promoting the rule of law, improving security and safety, protecting basic human and economic rights, as well as improving expenditure efficiency and service delivery thereby creating favourable conditions for investment and growth.

AID MGT AND EFFECTIVENESS

- Aid transparency and greater accountability are key elements on aid effectiveness in line with Paris Declaration, Accra Agenda for Action JAST Principles
 - This is now made possible by AMP which is a web based tool designed to enable better management and coordination of development assistance.
- The government continues to advocate that GBS is the preferred aid delivery modality. Benefits of adhering to JAST and PFM on delivering more aid through GBS are:
 - Reducing transaction costs in management of basket and project funds
 - Increasing predictability of development partners funding, hence improving planning and budgeting process.
 - Reduce delays in implementation of some programs and projects

COMPOSITION OF FOREIGN AID TREND



Challenges and the way forward

- Increasing domestic revenue collection to fully fund recurrent spending
- Scaling up investment in infrastructure development
- Scaling up resources from both domestic and external sources to adequately fund MKUKUTA II interventions.

Conclusion

- The Government remains committed to implementing policies that are geared towards accelerating growth and poverty reduction in line with MKUKUTA II
 - Prioritisation and sequencing will be made to facilitate strategic resource allocation and ensure efficiency and effectiveness in their implementation.
- Financing of MKUKUTA II calls for adequate budgetary resources. Through PER process, discussions will be carried out on possible scaling up resources in the medium term. The consideration will be made from both domestic and external sources.
- The Government will work to contain the growth of recurrent expenditure in order to create more fiscal space for investment spending.

**THANK YOU
FOR LISTENING**